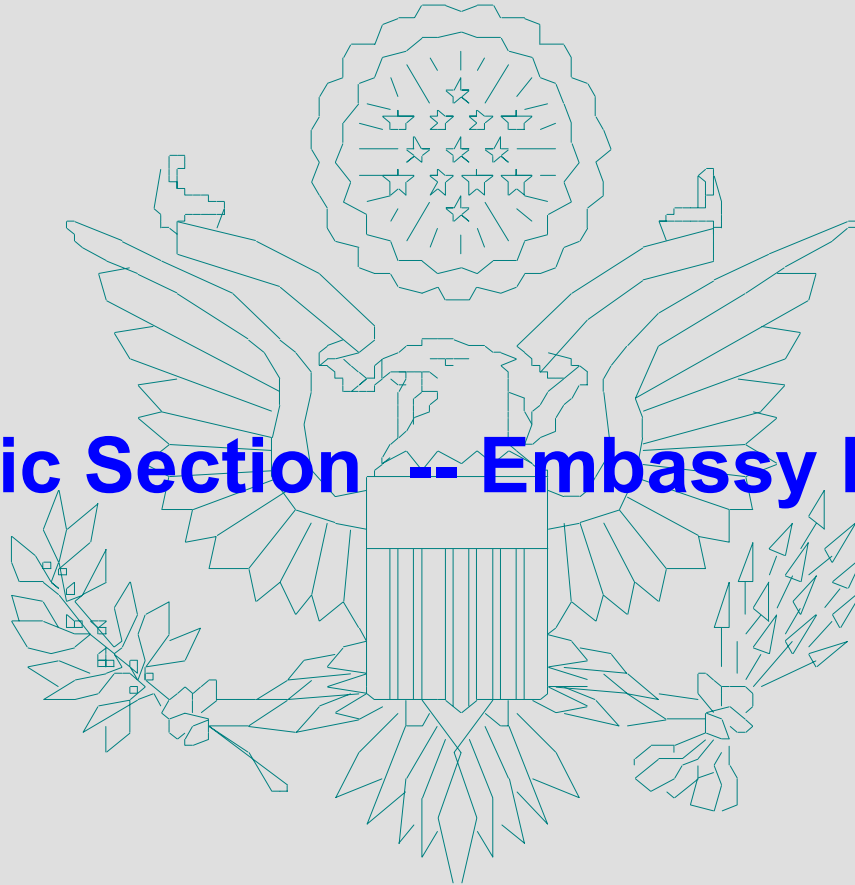


# The Indian Economy

**Economic Section -- Embassy New Delhi**



**Prepared by Economic Affairs**

# Key Social Indicators

	1980s	1990s	latest
<b>Population (millions)</b>	<b>685</b>	<b>845</b>	<b>1090</b>
<b>Poverty Incidence (% pop.)</b>	<b>44.5</b>	<b>36</b>	<b>25</b>
<b>Teledensity (per 100 pop.)</b>	<b>0.37</b>	<b>0.8</b>	<b>12</b>
<b>Literacy</b>	<b>44</b>	<b>52</b>	<b>66</b>
<b>Infant Mortality (per 1000 births)</b>	<b>115</b>	<b>79</b>	<b>60</b>
<b>prevalance of HIV (millions)</b>	<b>n.a</b>	<b>3.5</b>	<b>6</b>

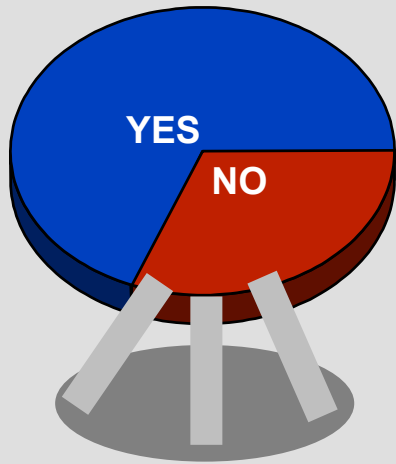
**Sources: CMIE, RBI**

# India Economic Facts

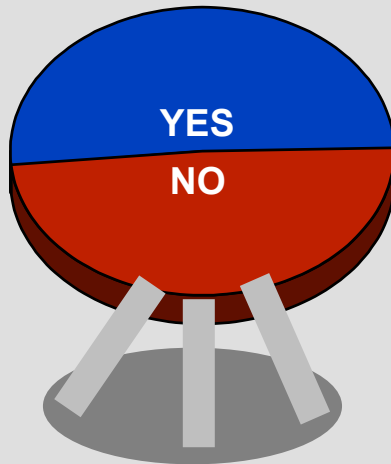
- ① GDP is \$752 billion; world's 10th largest economy in terms of GDP.
- ① Economic liberalization began in 1991; continues at a slow pace. India is slowly integrating with global markets.
- ① Since the 1990s, the middle class has grown and poverty levels have fallen.
- ① GDP growth has fallen only slightly to 6.4% (2000-2005) from 6.7% (1994-1999).
- ① Tariffs are still among the world's highest (average 22%).
- ① Challenges ahead: reduce poverty, accelerate pace of reform, reduce fiscal deficit, upgrade infrastructure.
- ① India's successes: IT, pharma & biotech, telcom, science and technology skills, manufacturing gaining competitiveness.
- ① Two-way U.S.-India trade tops \$25 billion a year, was \$10 billion in 1997.
- ① India's GDP grew at an impressive 7.8% during 2005-2006.

# English and education versus higher income

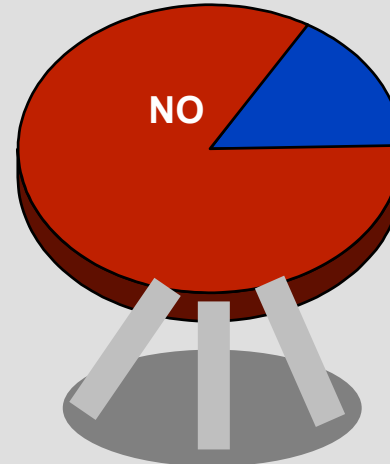
Speak  
Hindi



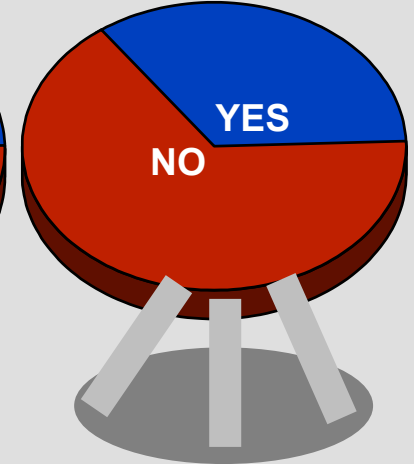
Read  
Hindi



Speak  
English



Read  
English

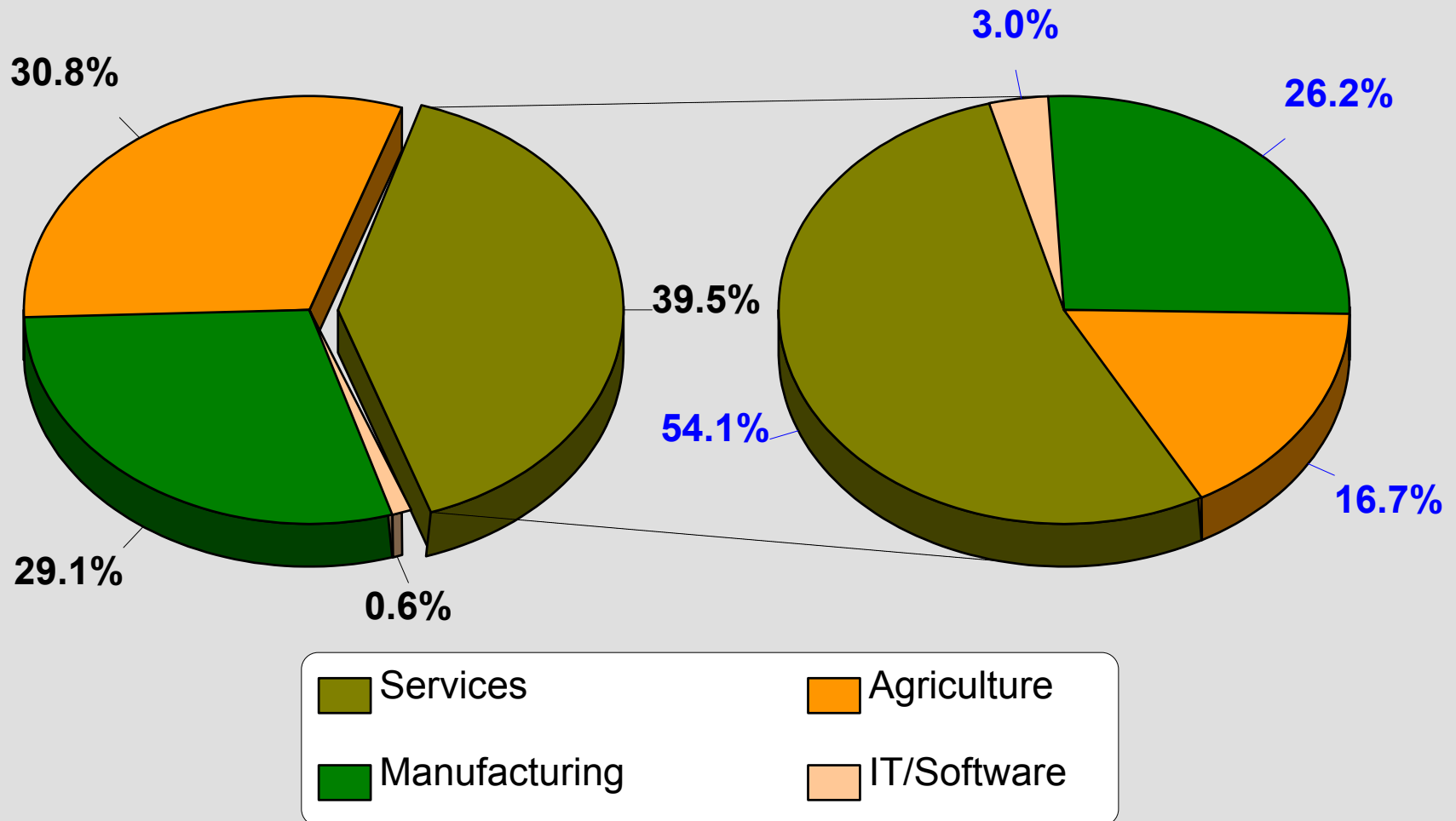


Class	Read Hindi	Read English
Poor	4%	2%
Middle Class	37%	23%
Upper Class	11.5%	10%
Total	51.5%	35%

# Sectors of the Indian Economy

1990

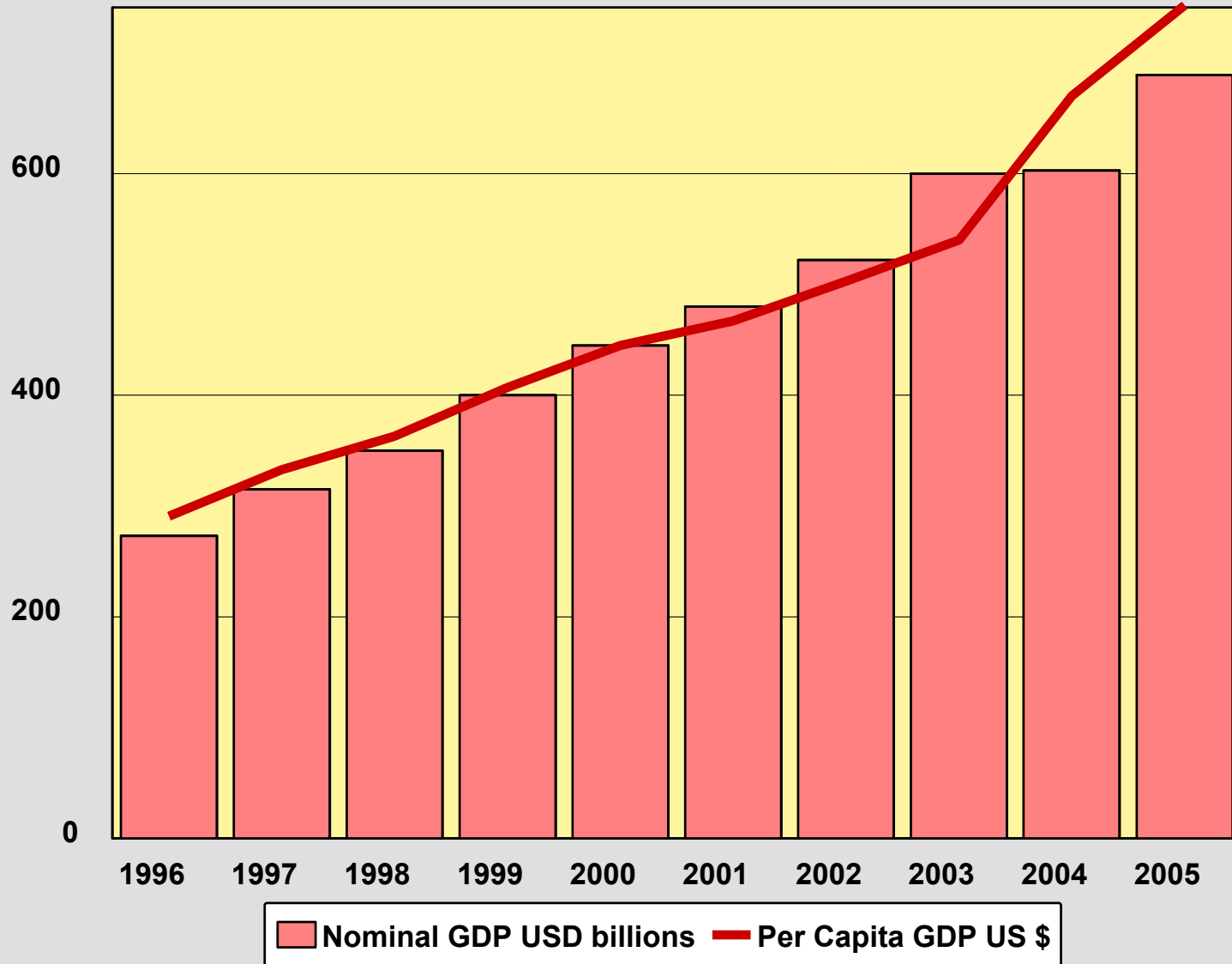
2004



Source: CMIE, RBI, World bank

# Nominal and Per Capita GDP

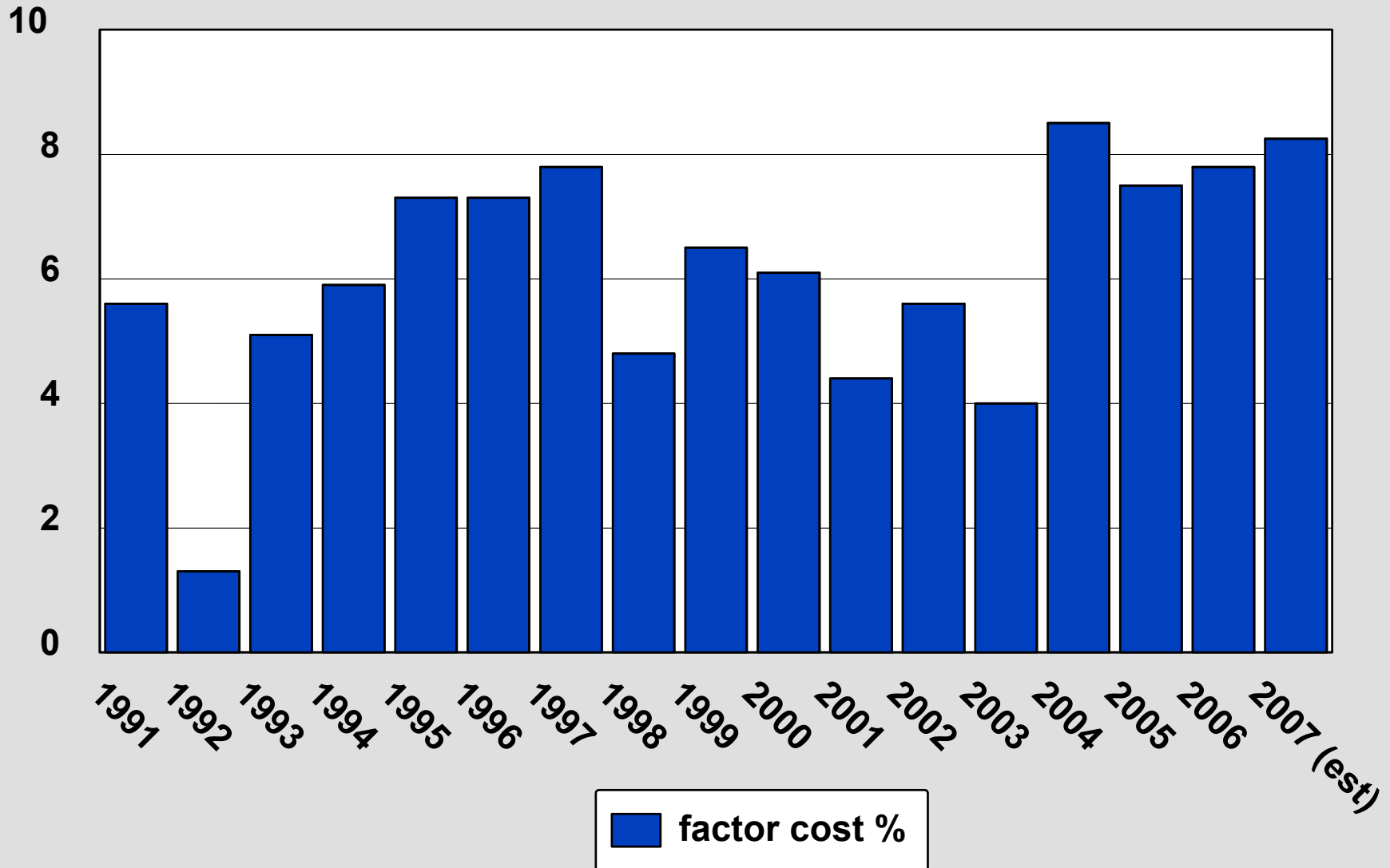
Fiscal year end March



Source: Central Statistical Office

# Real GDP Growth Rates

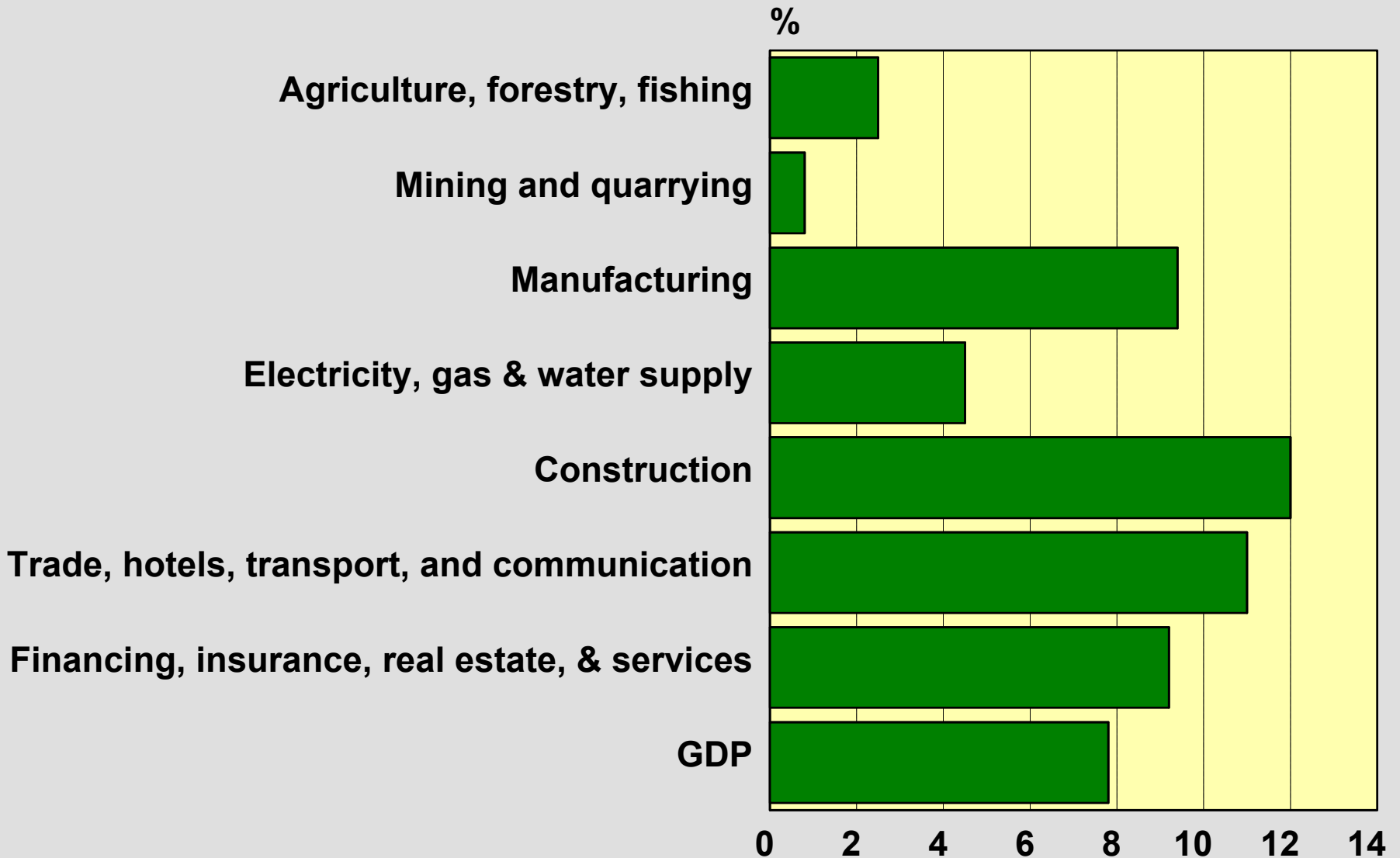
Fiscal year end March



Source: Reserve Bank of India, Economic Survey, 2005-2006

# GDP at Factor Cost by Sector

(1999-2000 Bare Year Prices)

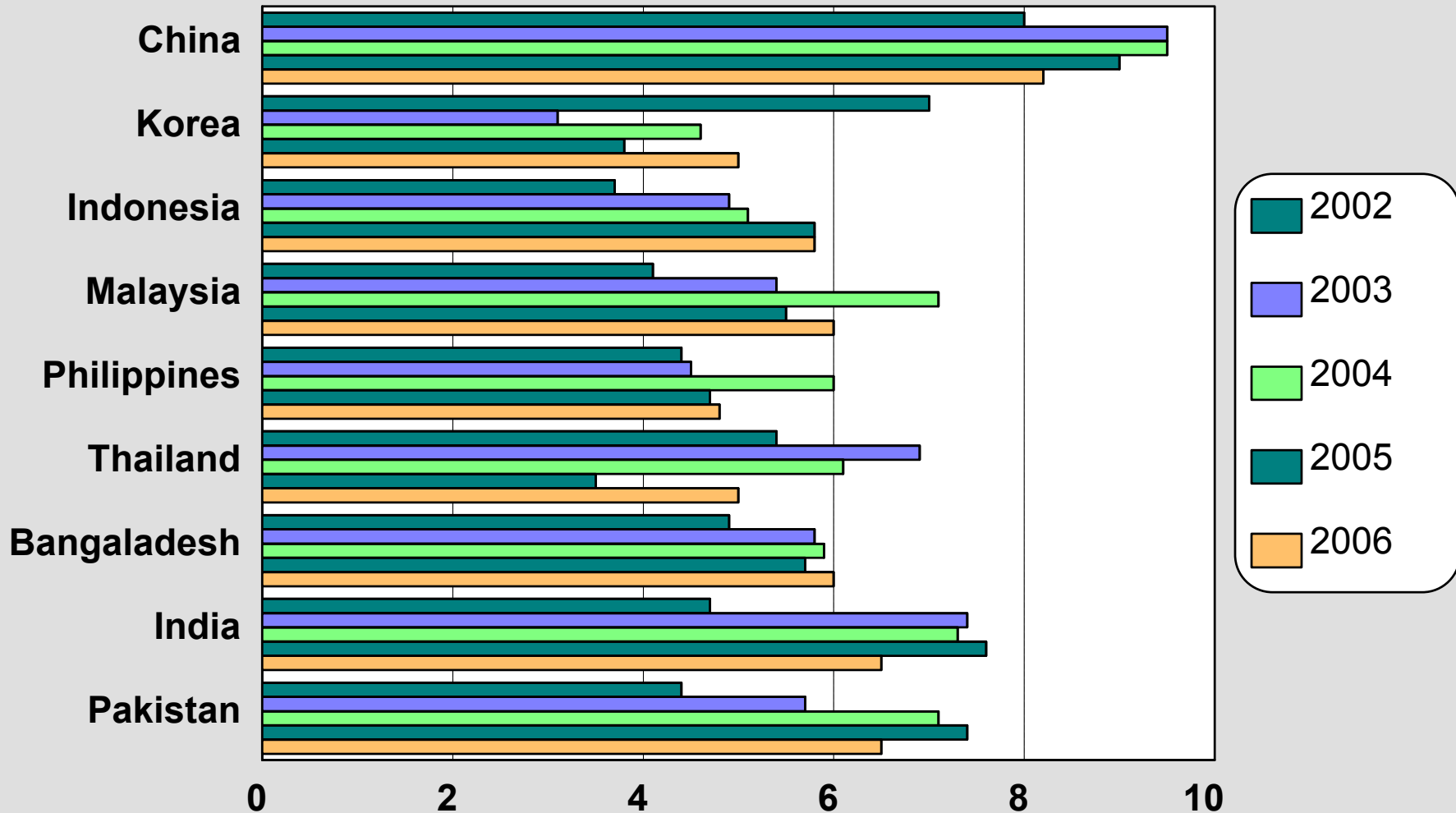


Source: The Economic Times, CMIE, CSO



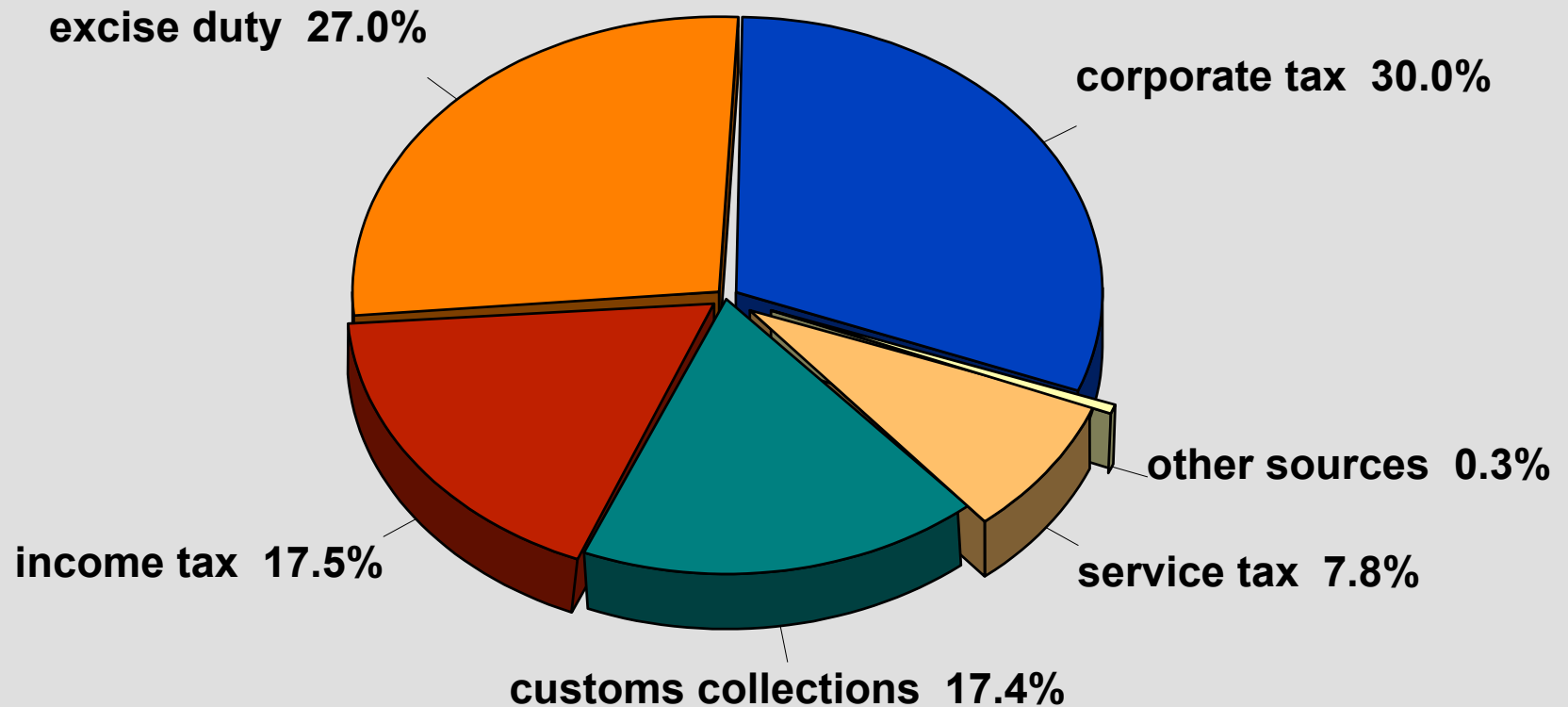
# Comparative Growth Rate of GDP

% per annum



# Sources of Government Revenue

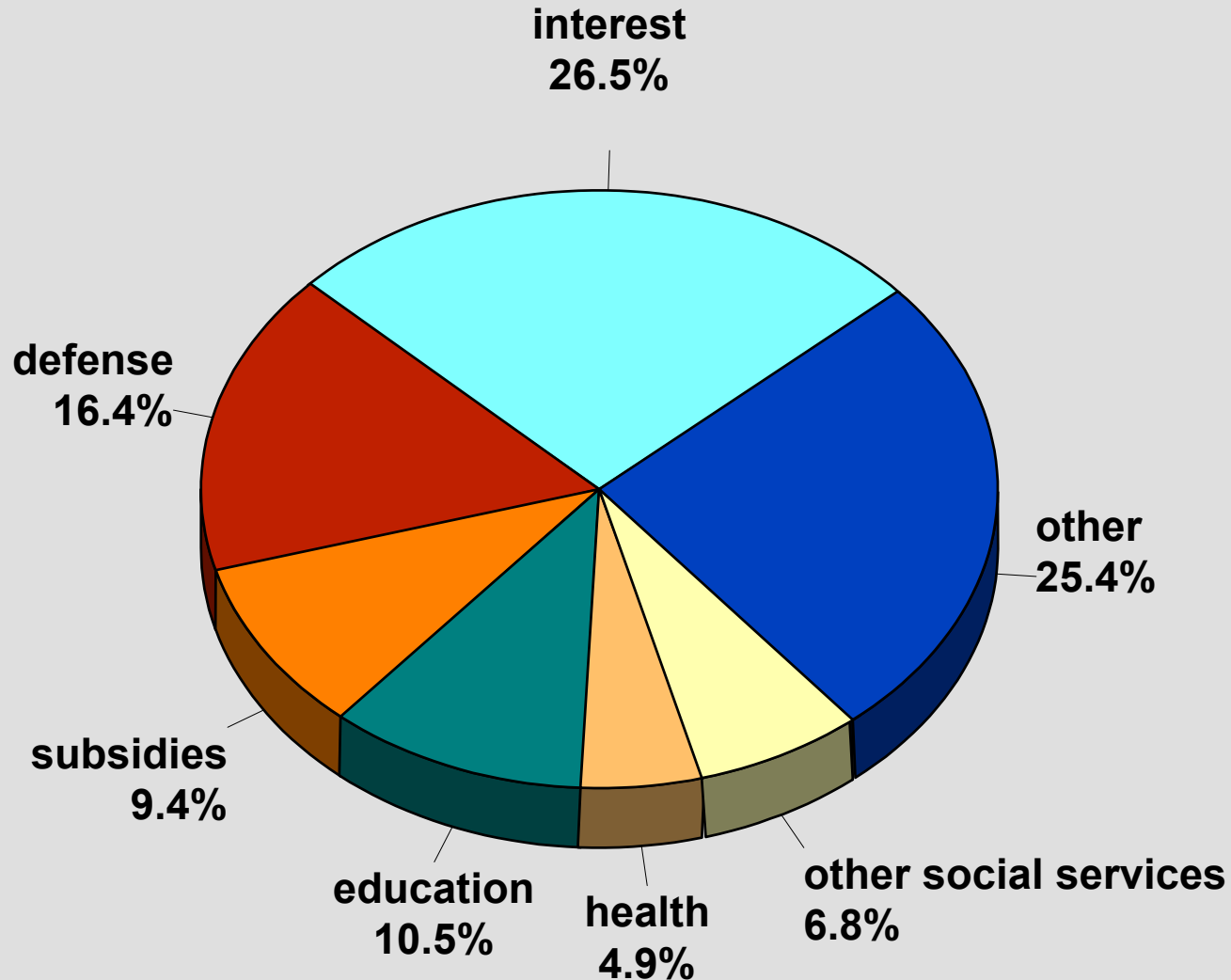
Fiscal year 2006



Source: India Ministry of Finance, India Budget 2006-2007

# Expenditure of General Government

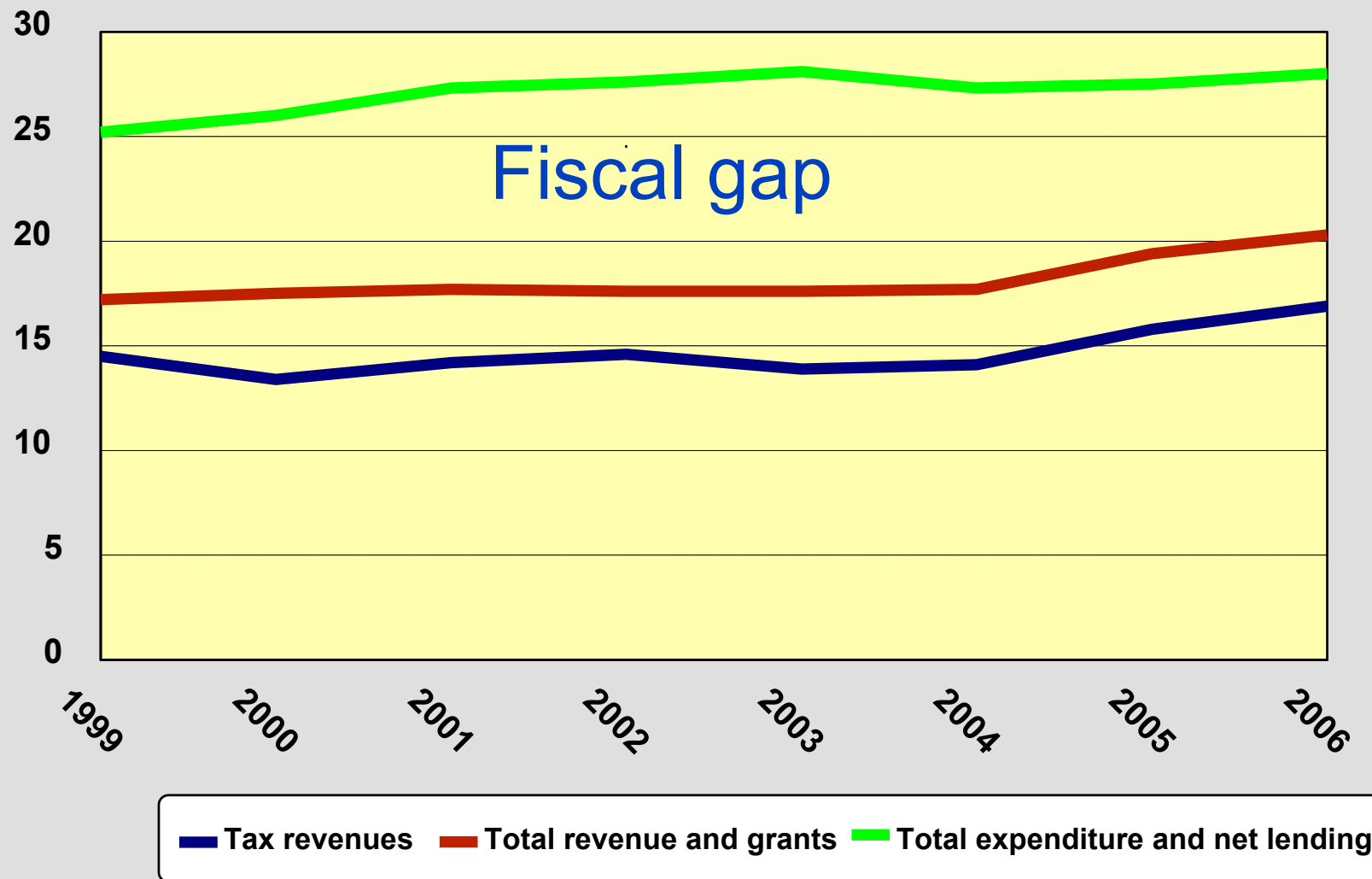
Combined Center and State -- 2005



Source: IMF

# Tax Revenues as Percent of GDP

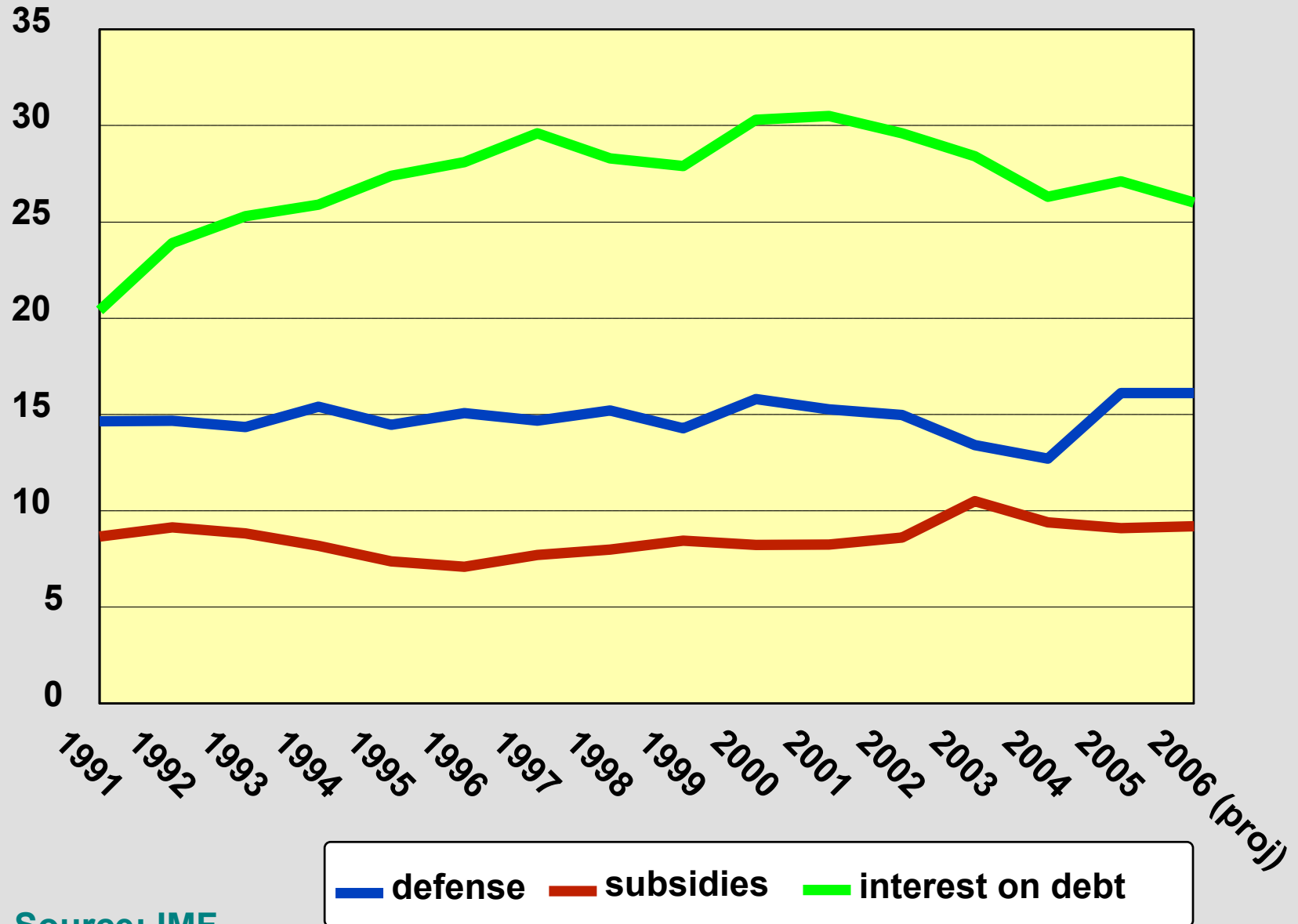
Fiscal Year end March



Source: IMF

# Government Expenditure

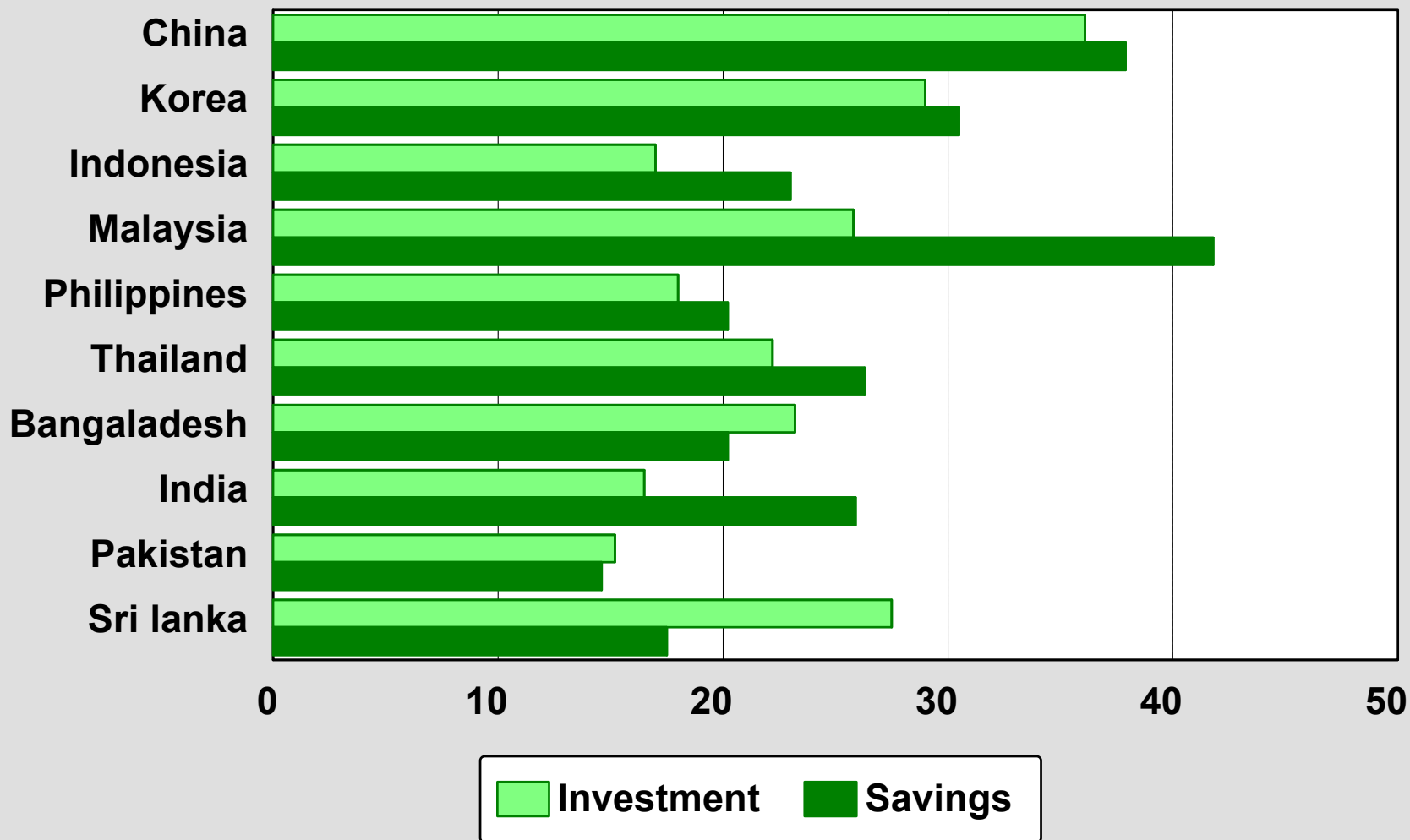
% total expenditure



Source: IMF

# Gross Domestic Savings and Investment

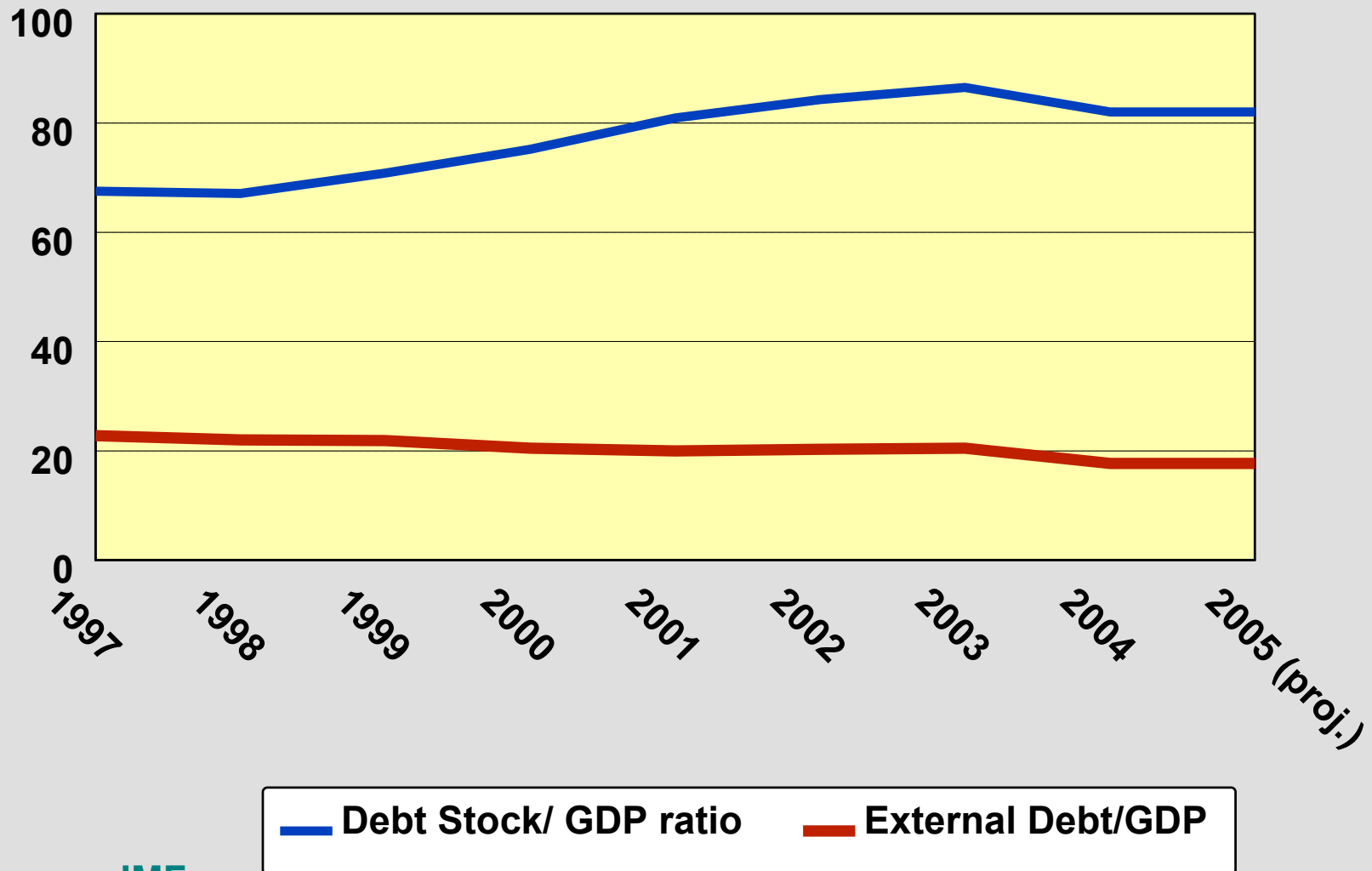
% GDP 2002



Source: Asian Development Outlook 2002

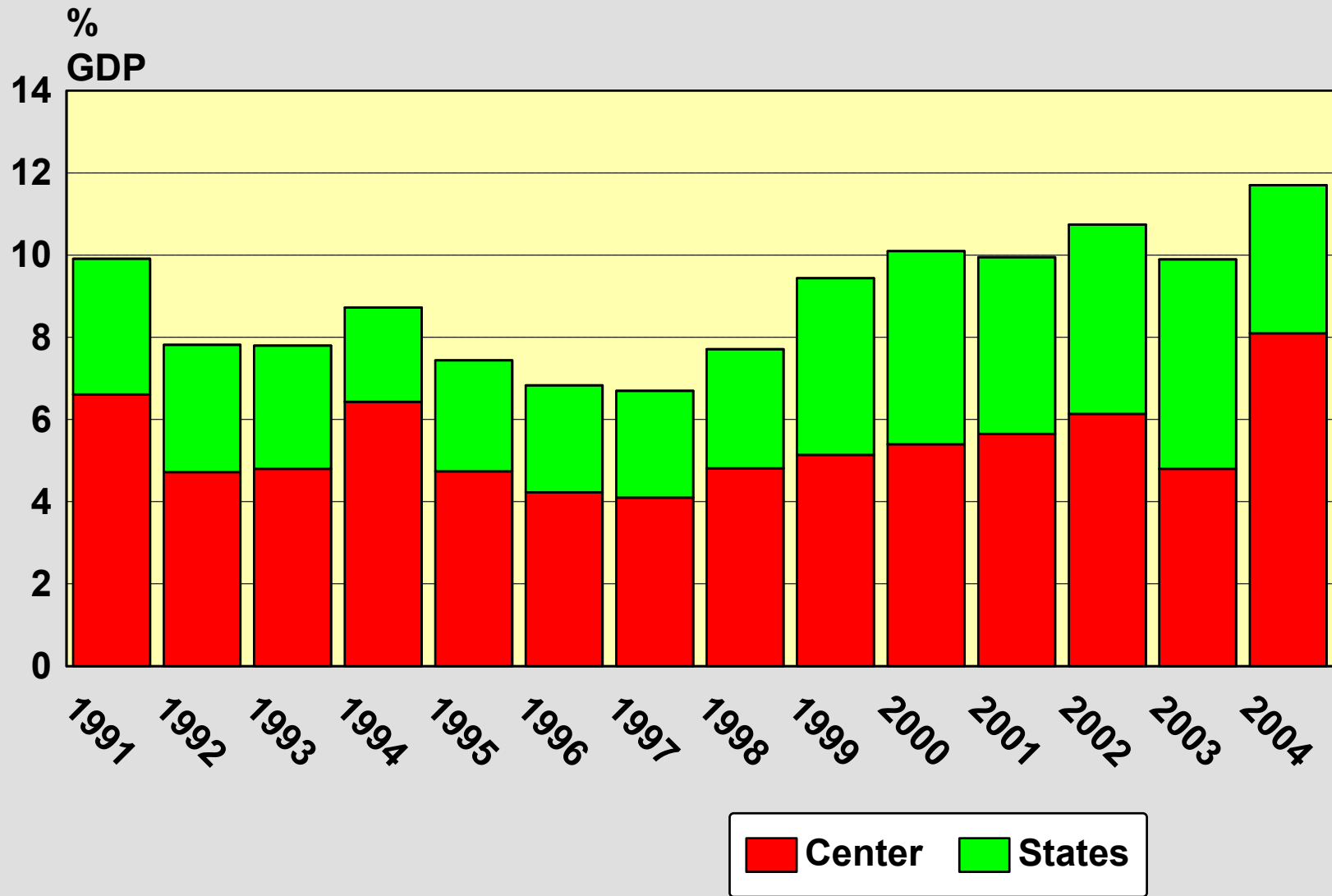
# General Government Debt

Fiscal year end March



Source: IMF

# GOI Fiscal Deficit: States vs. Center

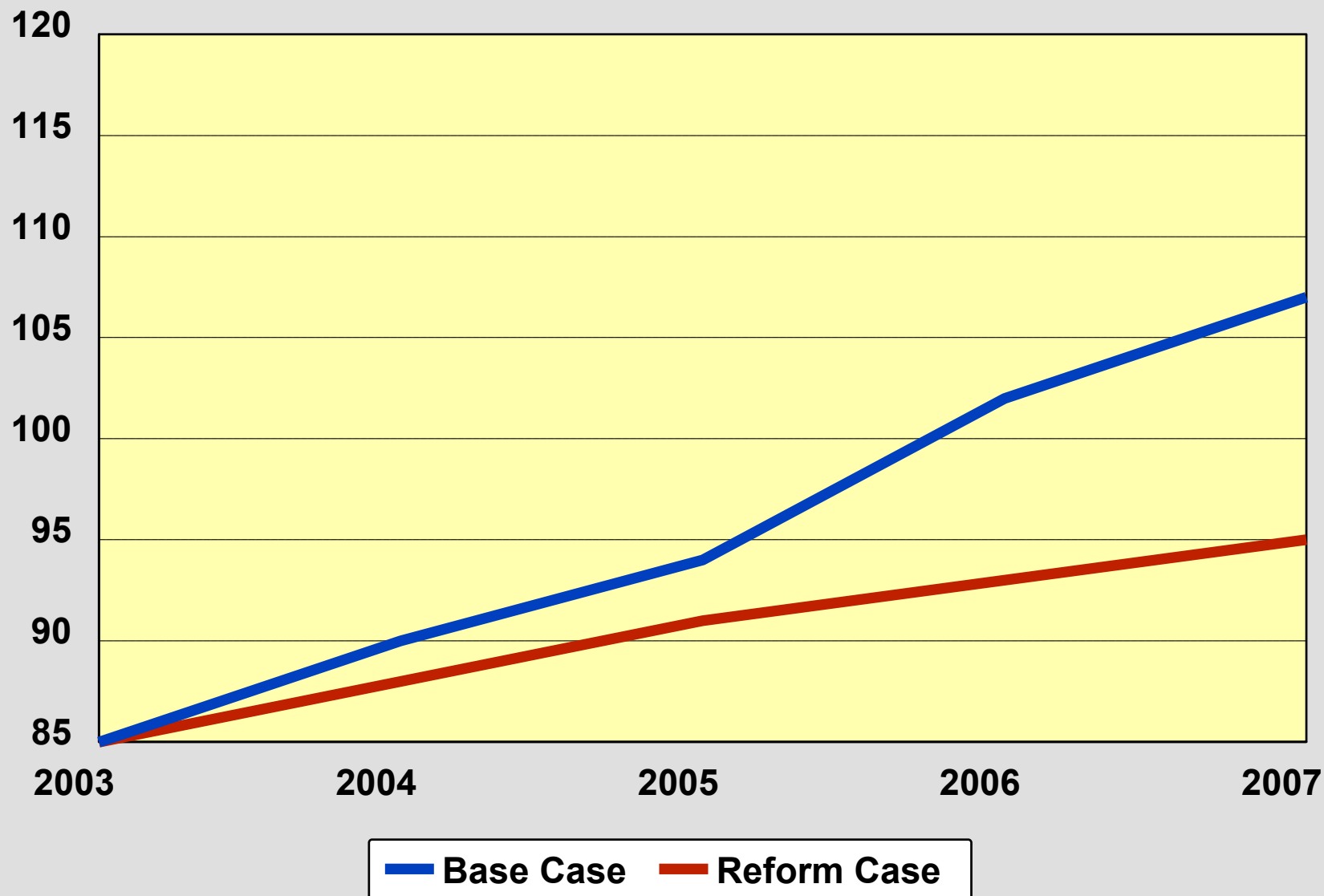


Source: Indian Ministry of Finance



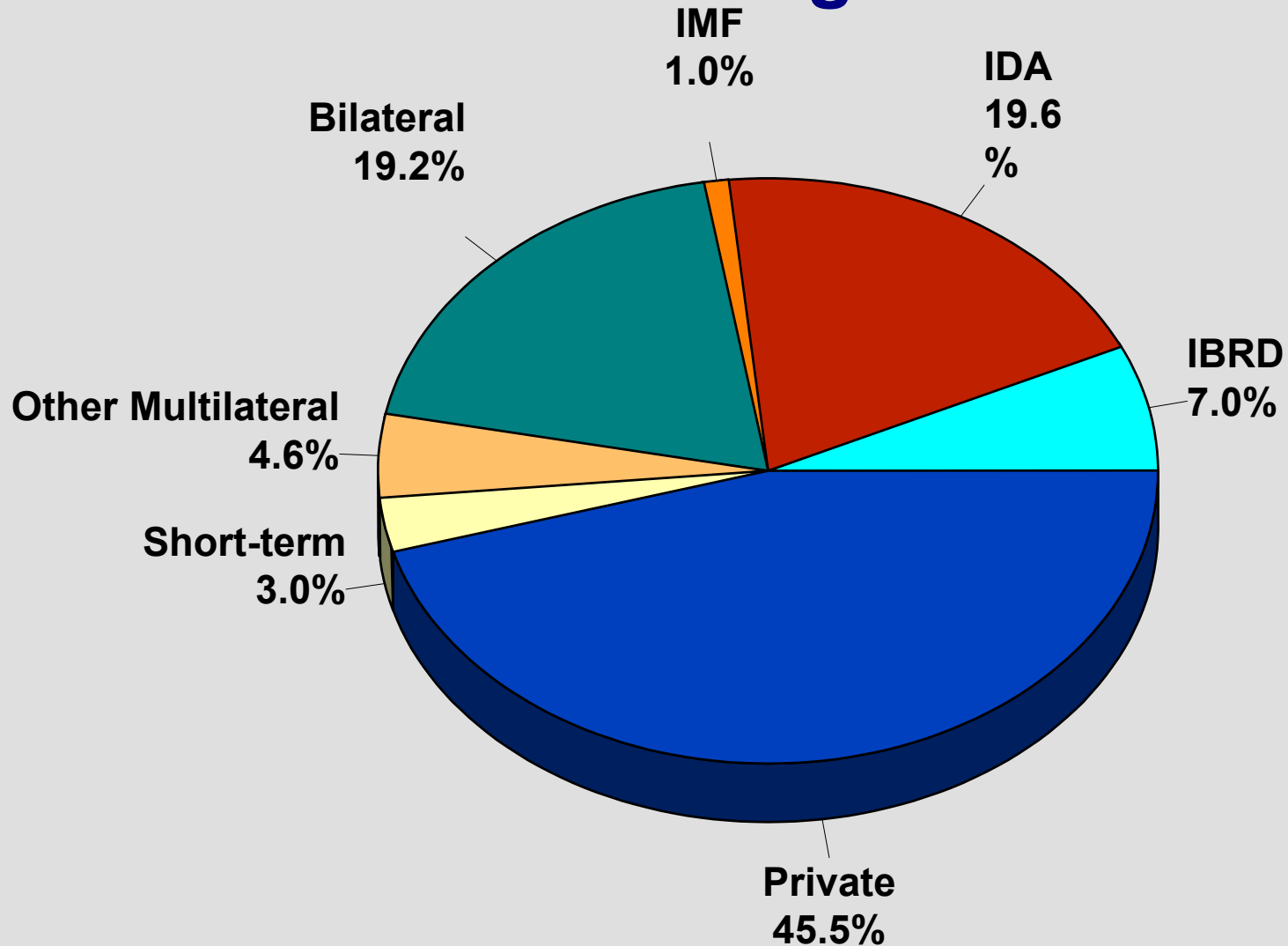
# Government Debt/GDP Ratio

2003-2007



Source: IMF

# Composition of India's 2004 Sovereign Debt

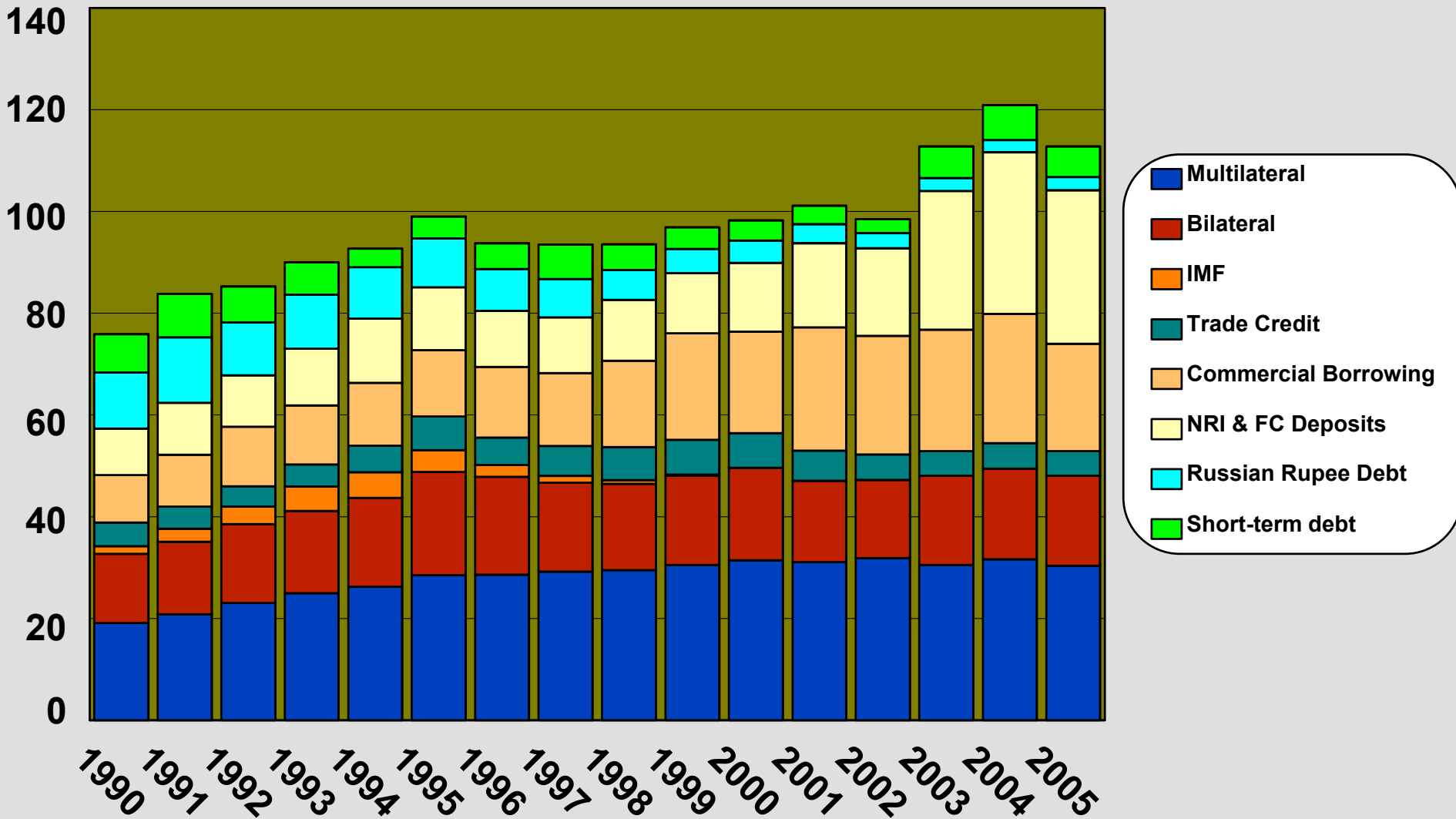


Source: IBRD

# India's External Debt

Fiscal year end March

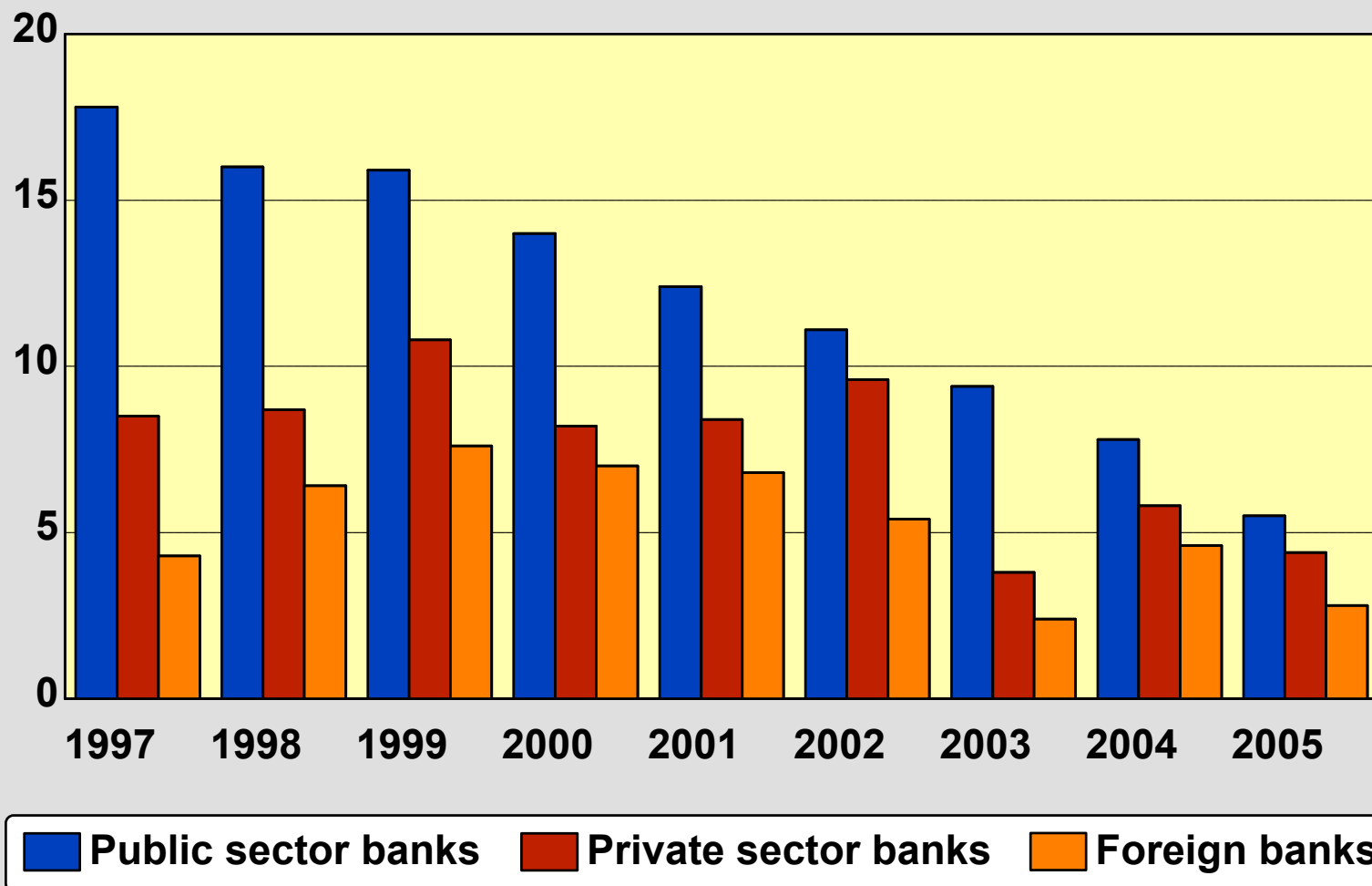
US \$ billions



Source: Reserve Bank of India; Finance Ministry

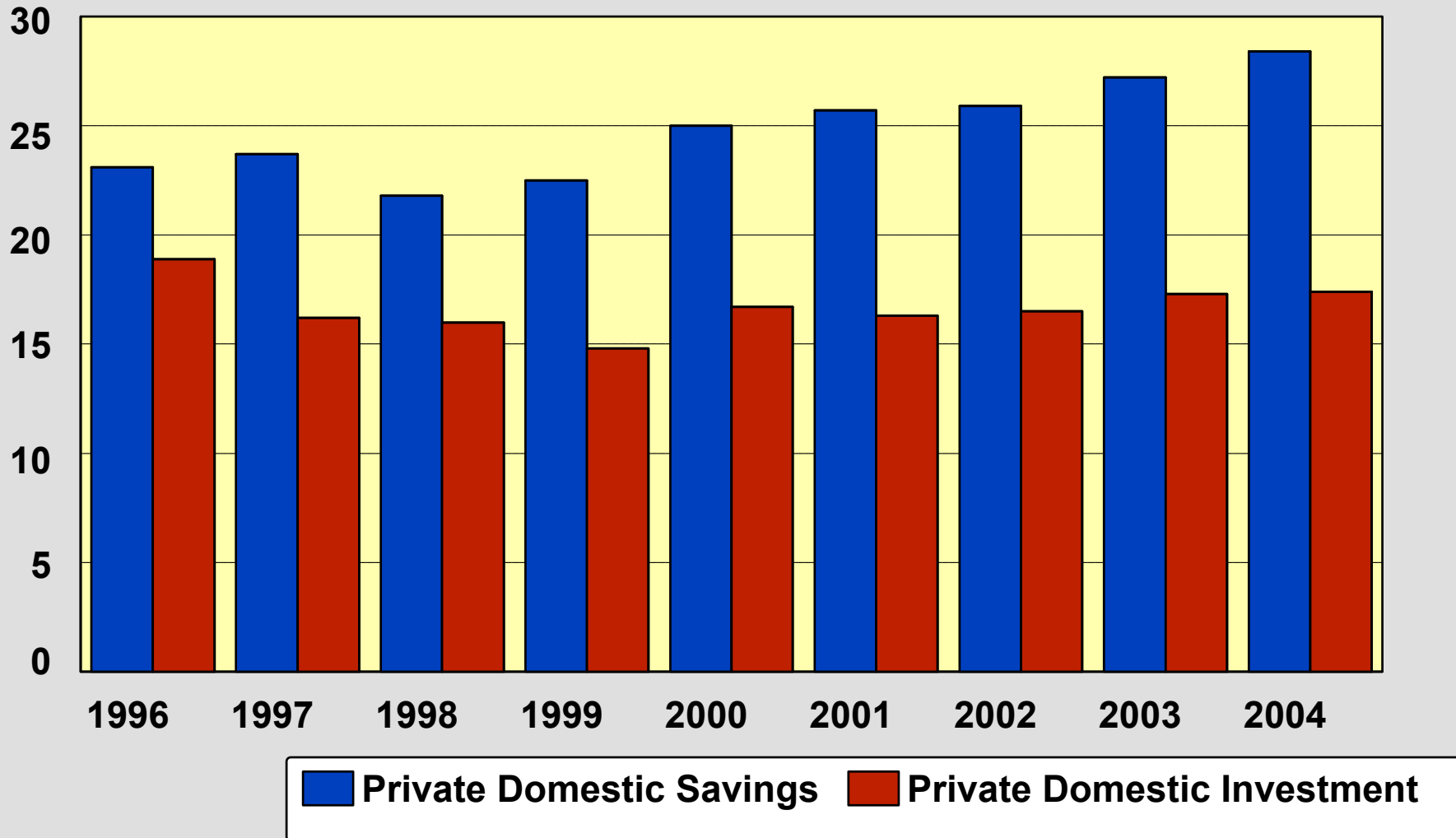
# Gross Nonperforming Loans

## % of Total Loans



# Indian Saving and Investment

% of GDP

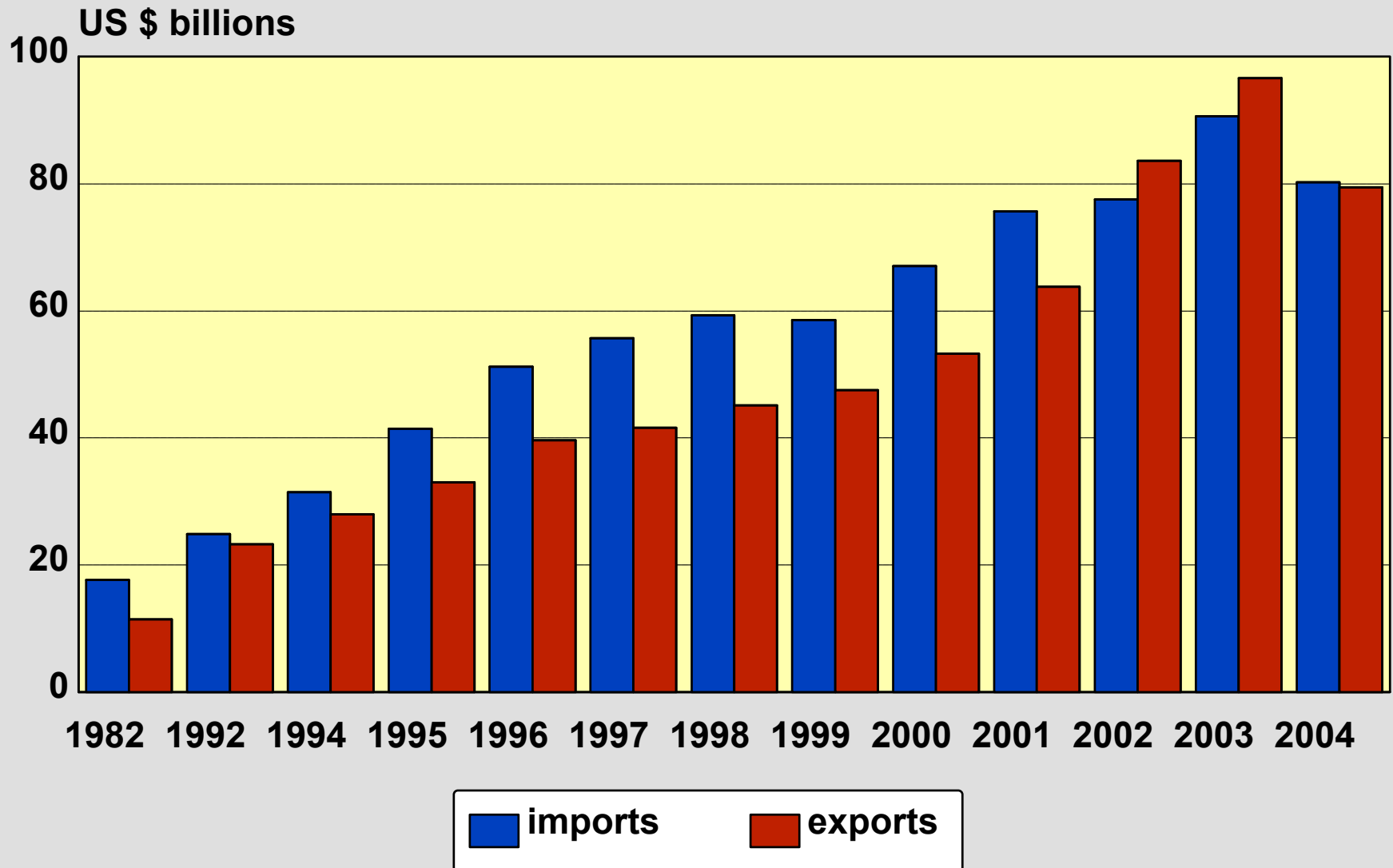


# Bet You Didn't Know (Part One)

- ① India is one of only three countries that makes supercomputers (the US and Japan are the other two).
- ① India is one of six countries that launches satellites.
- ① The Bombay stock exchange lists more than 6,000 companies. Only the NYSE has more.
- ① Eight Indian companies are listed on the NYSE; three on the NASDAQ.
- ① By volume of pills produced, the Indian pharmaceutical industry is the world's second largest after China.
- ① India has the second largest community of software developers, after the U.S.
- ① India has the second largest network of paved highways, after the U.S.
- ① India is the world's largest producer of milk, and among the top five producers of sugar, cotton, tea, coffee, spices, rubber, silk, and fish.
- ① 100 of the Fortune 500 companies have R&D facilities in India.

# Current Account

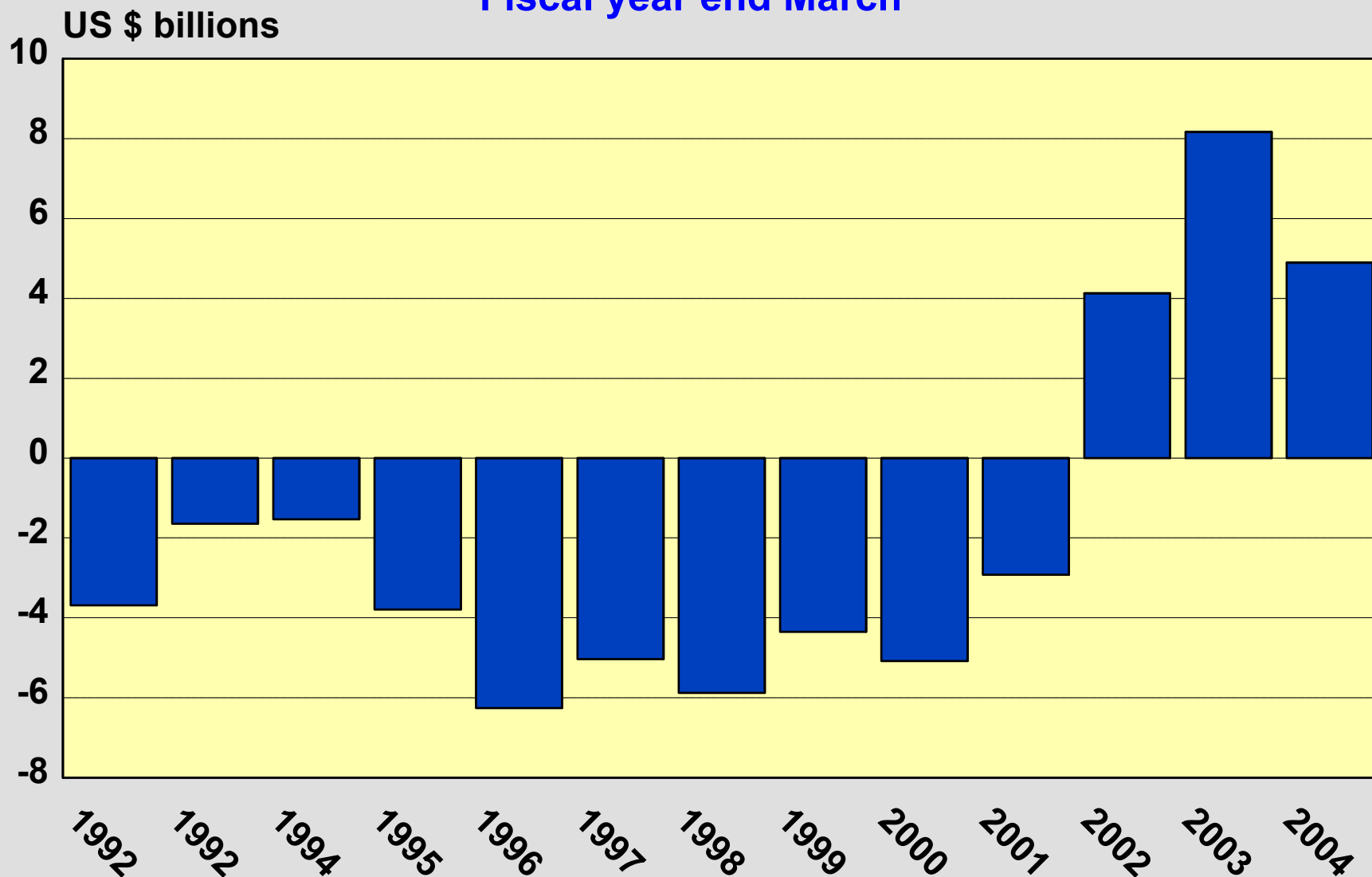
Goods and Services-- Fiscal year end March



Source: IBRD

# Current Account balance

Fiscal year end March

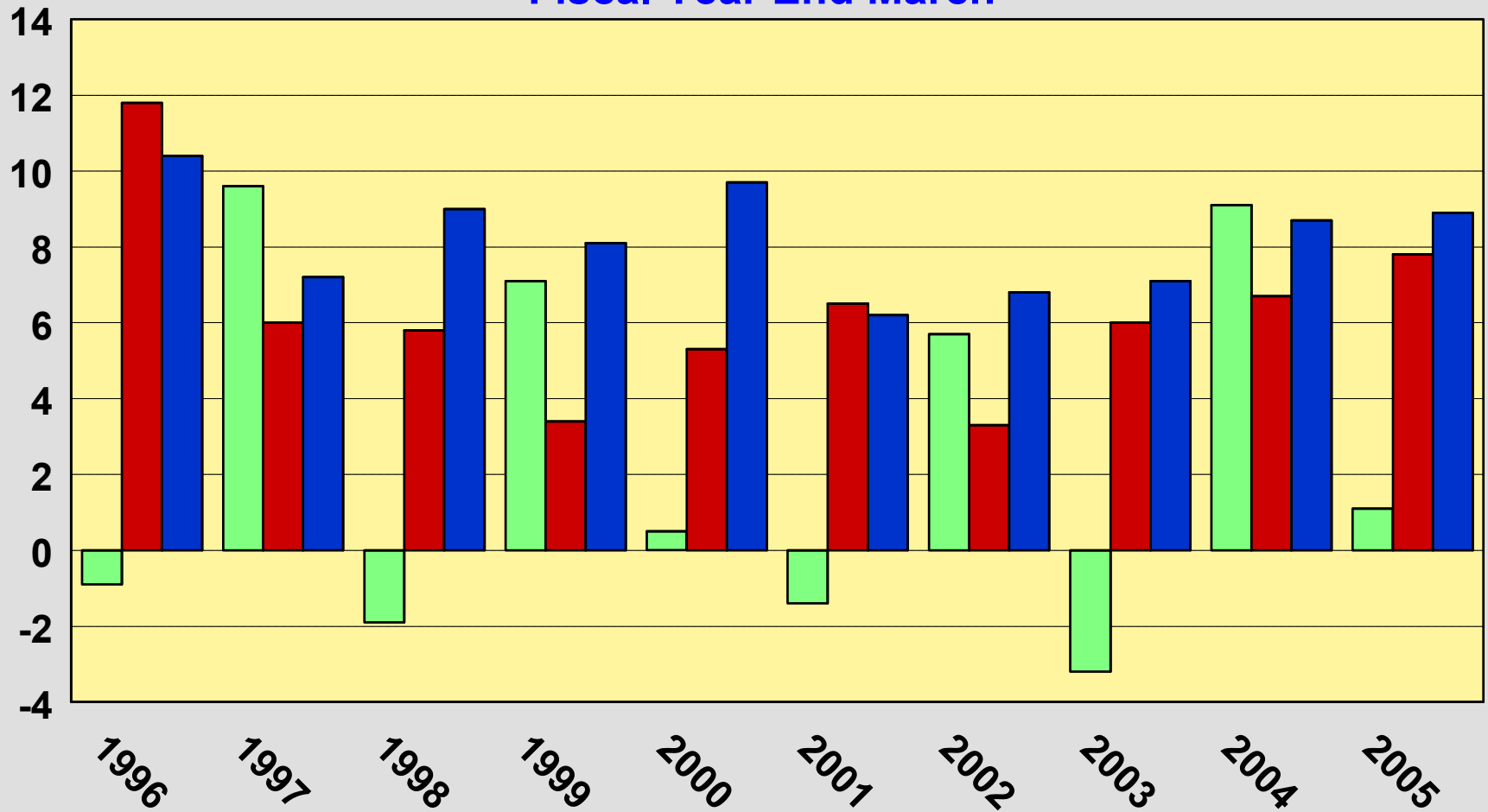


Source: IBRD, CMIE



# Sources of Real GDP Growth

Fiscal Year End March



Source: CSO, RBI, CMIE

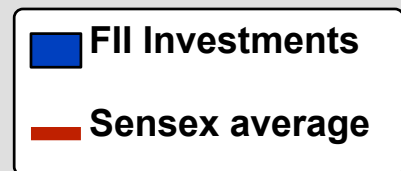
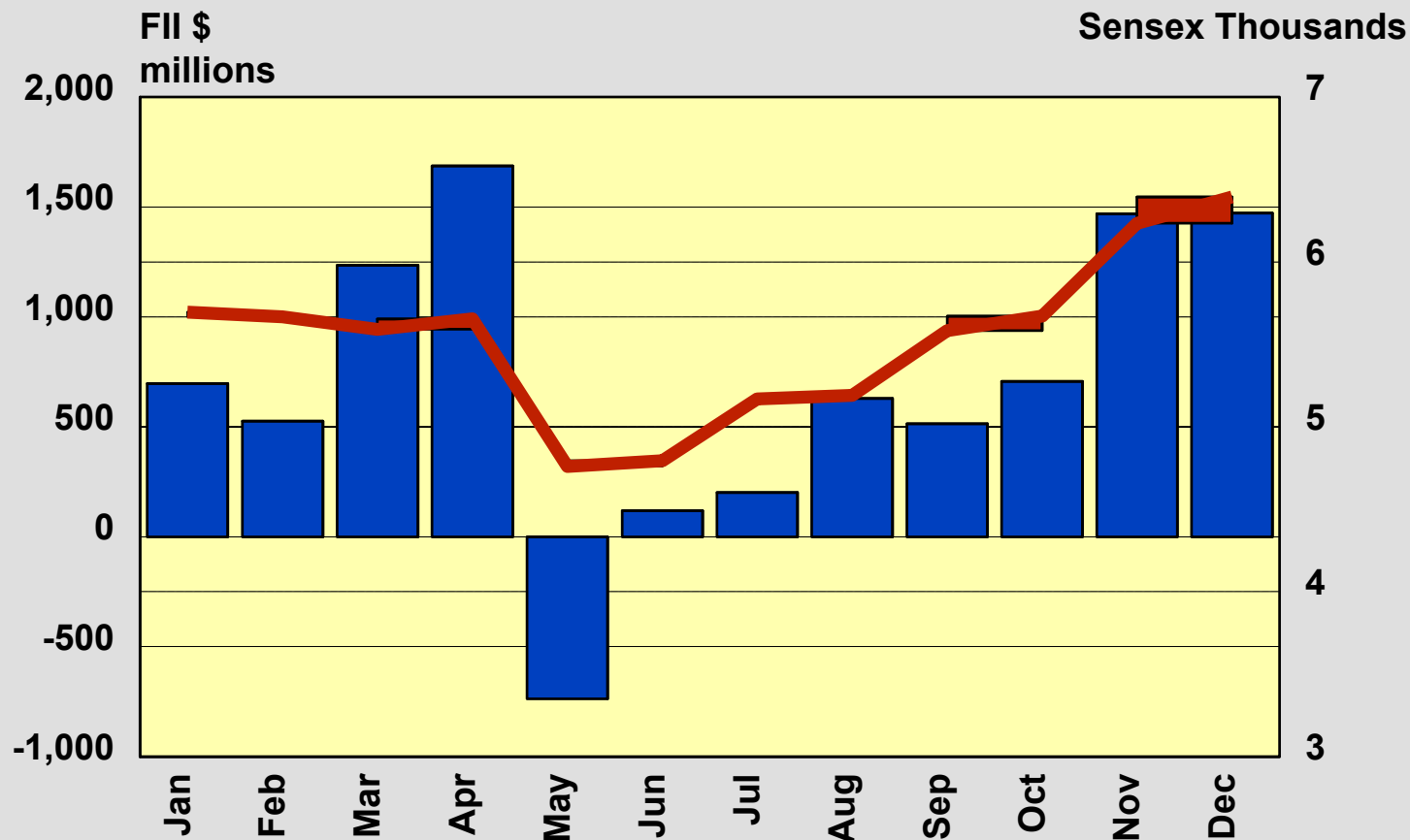
Agriculture

Industry

Services

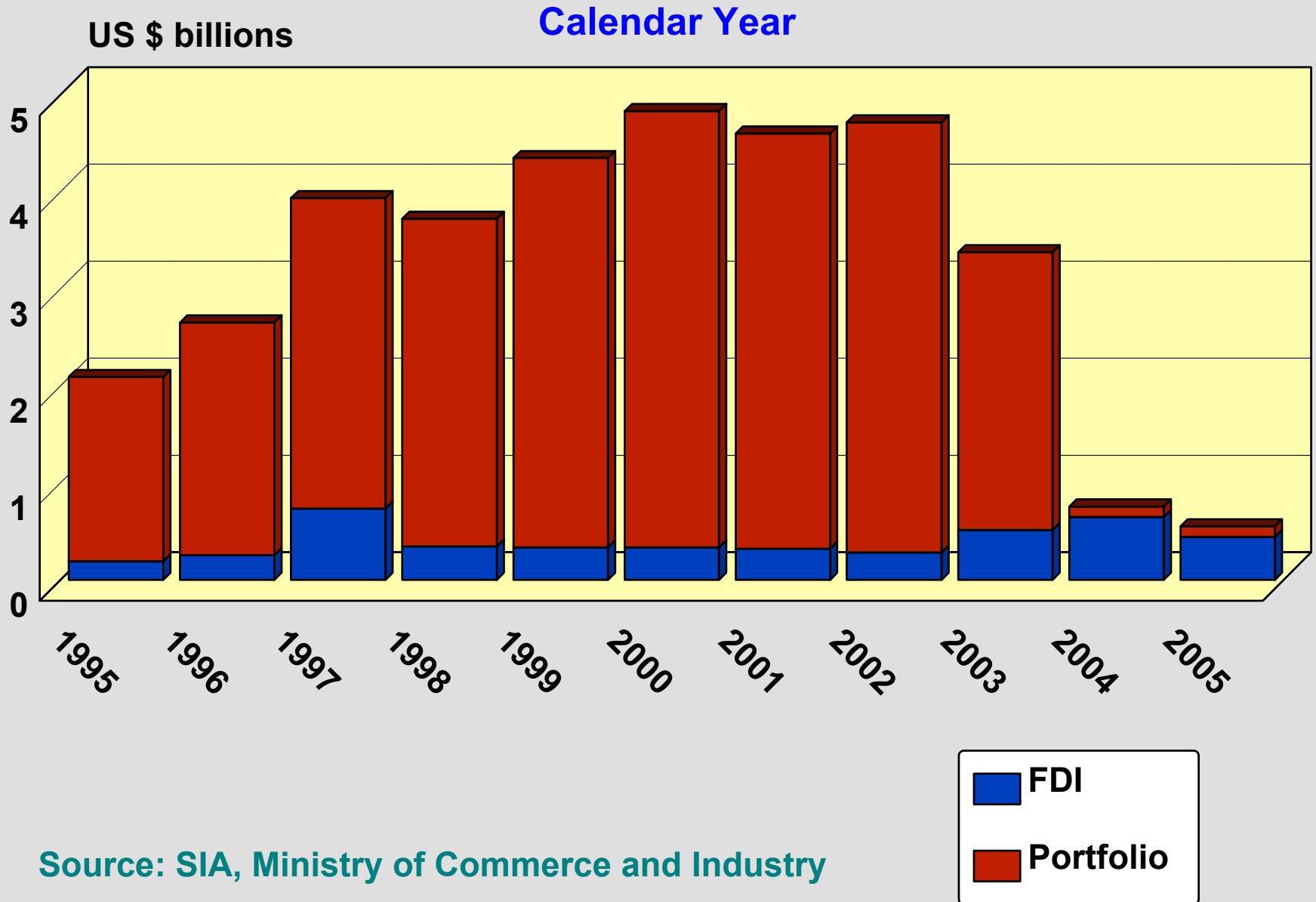
# Foreign Institutional Investment

## 2004



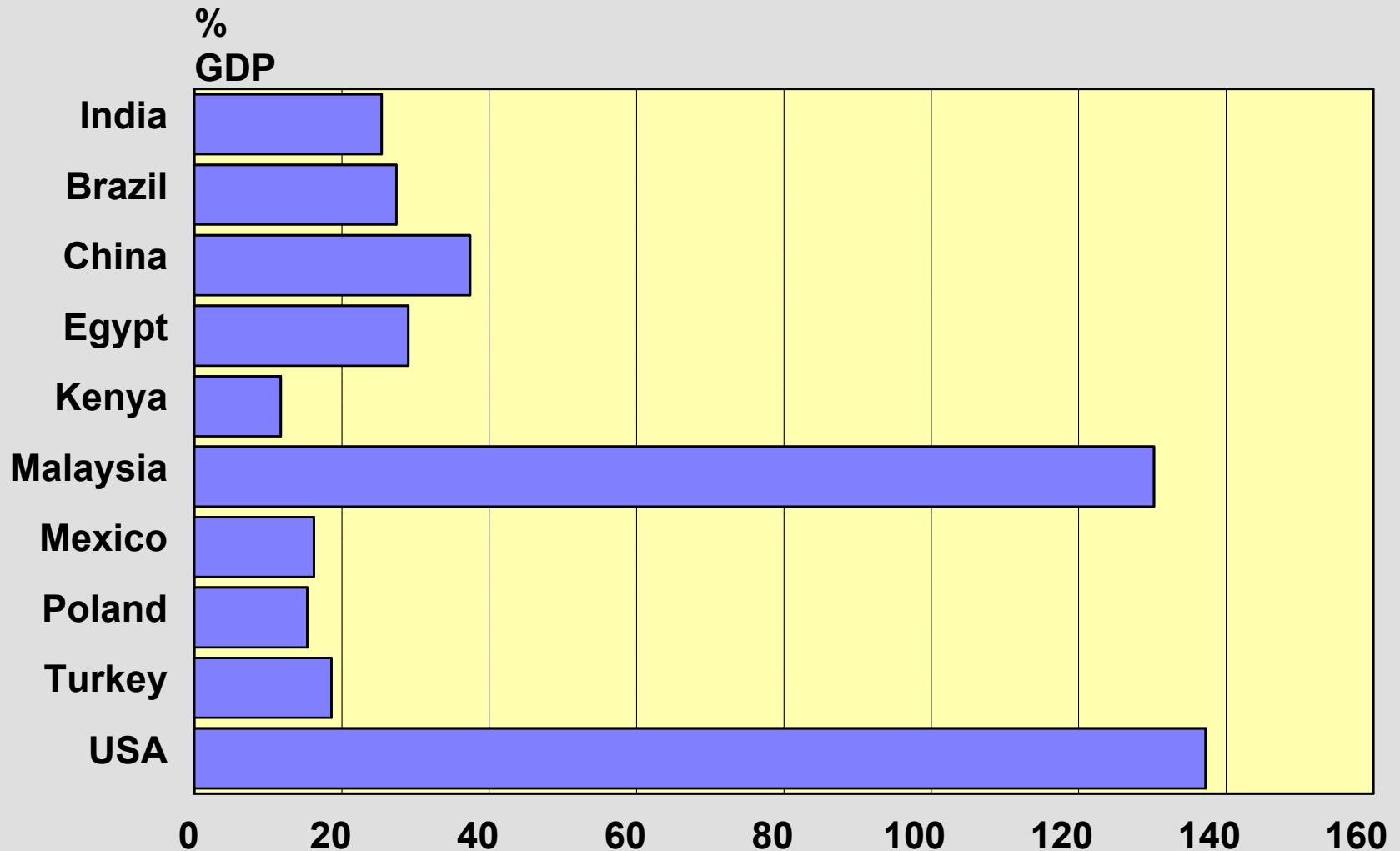
Source: Reserve Bank of India; SFBI; ABN-AMRO

# U.S. Investment in India



# Market Capitalization of Listed Companies

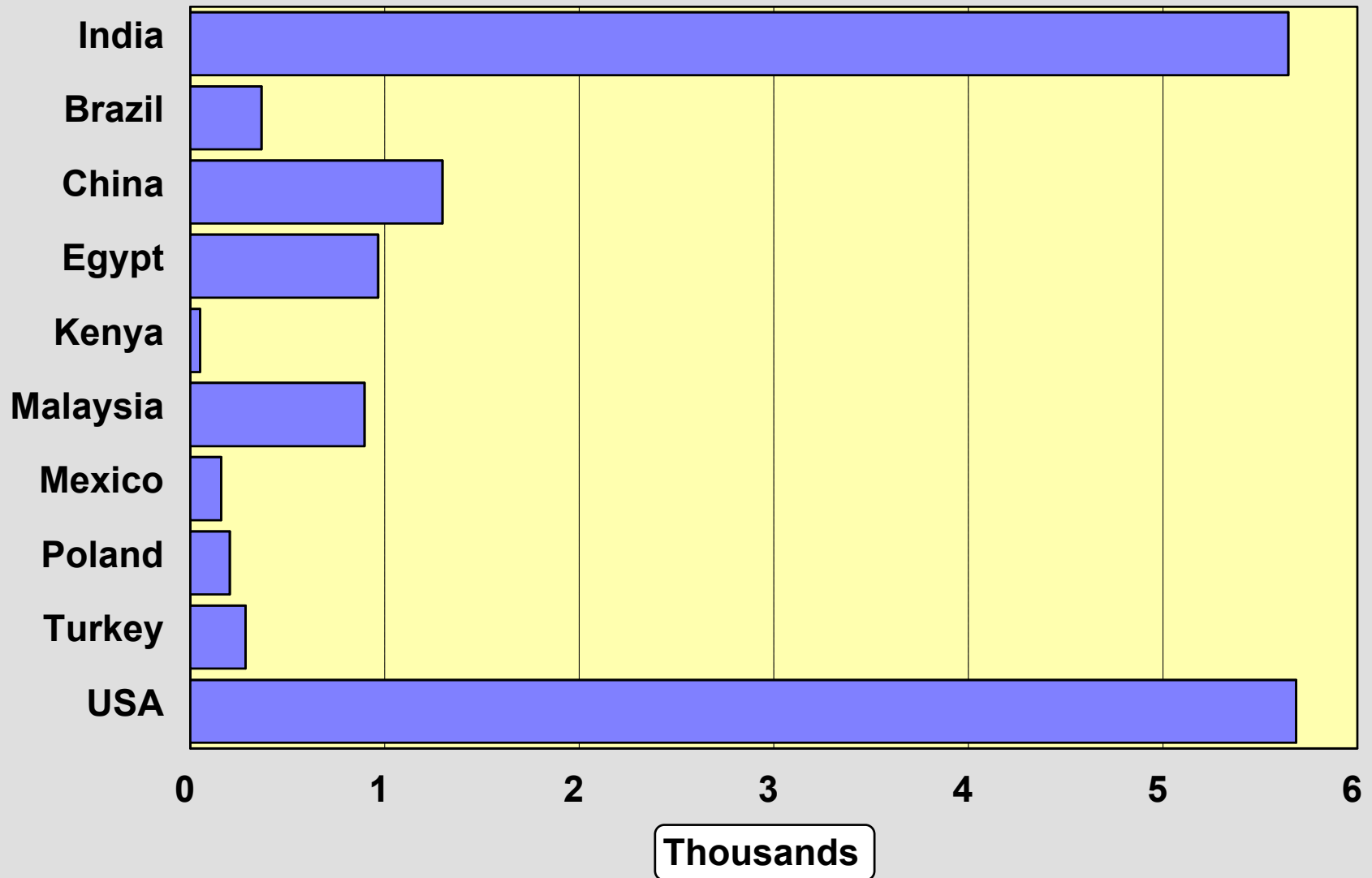
## 2002



Source: World bank, IMF

# Domestic Listed Companies

## 2003



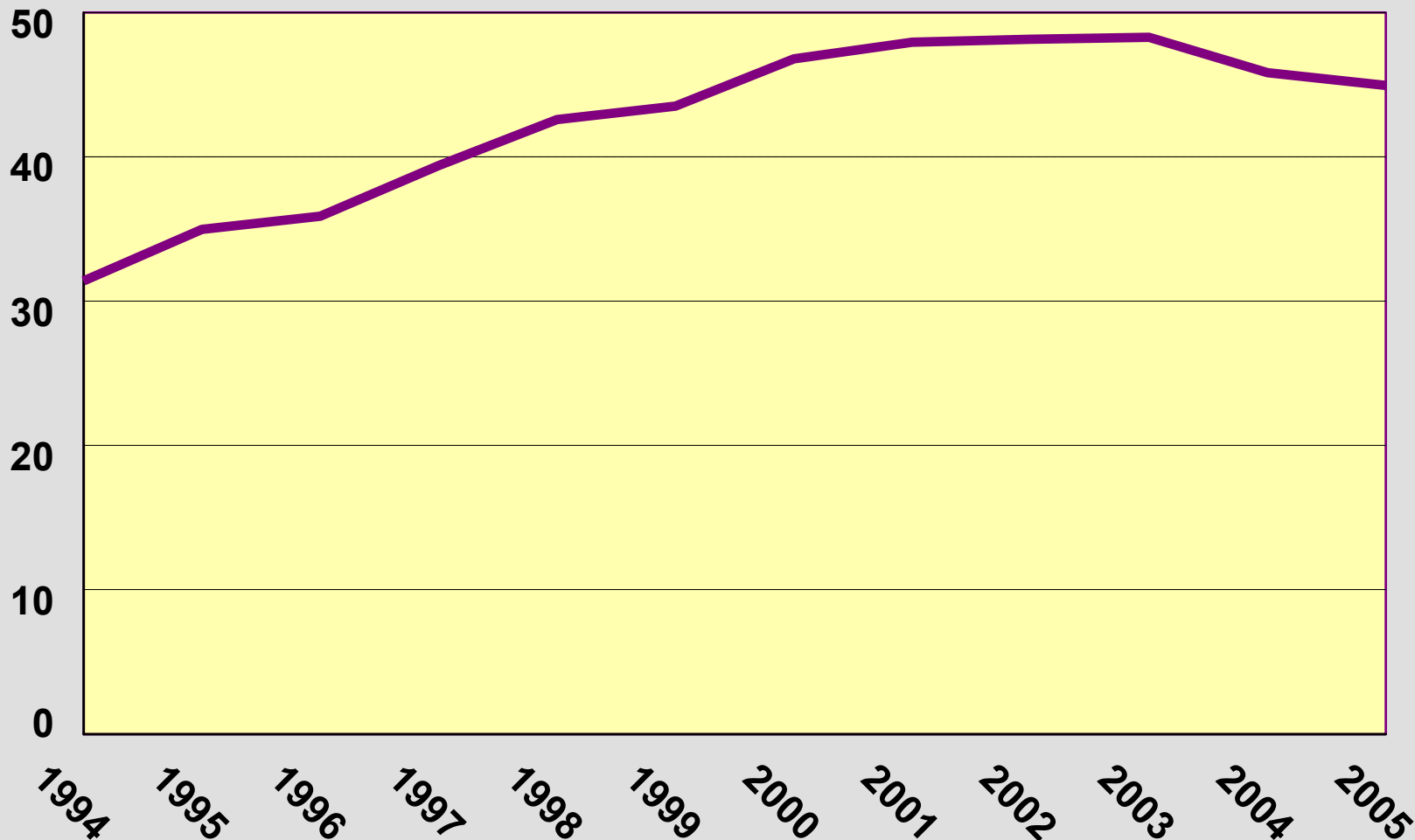
Source: World Bank. IMF

# Bet You Didn't Know (Part Two)

- ① Two million people of Indian origin live in the U.S.
- ① Indian-born Americans are among the most affluent and best educated of the recent immigrant groups in the U.S.
- ① Thirty percent of the R&D researchers in American pharmaceutical companies are Indian Americans.
- ① Nearly 49% of the high-tech startups in silicon Valley and Washington, D.C. are owned by Indians or Indian-Americans.
- ① There are over 700 companies in Silicon Valley owned by Indian-Americans.
- ① India sends more students to U.S. colleges than any country in the world. In 2004-2005, over 80,000 Indian students entered the U.S. China sent only 65,000 students during the same time.
- ① In a case decided by the U.S. Supreme Court, an Indian-American woman scientist, Dr. Ananda Chakrabaty, won the argument that persons may be granted patents for useful [manufacture] of living organisms. She defeated the U.S. Patent Office, that argued that living things may not be patented, thus establishing the legal foundation for the biotech industry, (Diamond vs. Chakrabaty, 1980). Dr. Chakrabaty invented a microbe that eats oil spills.

# Indian Rupees to 1 USD

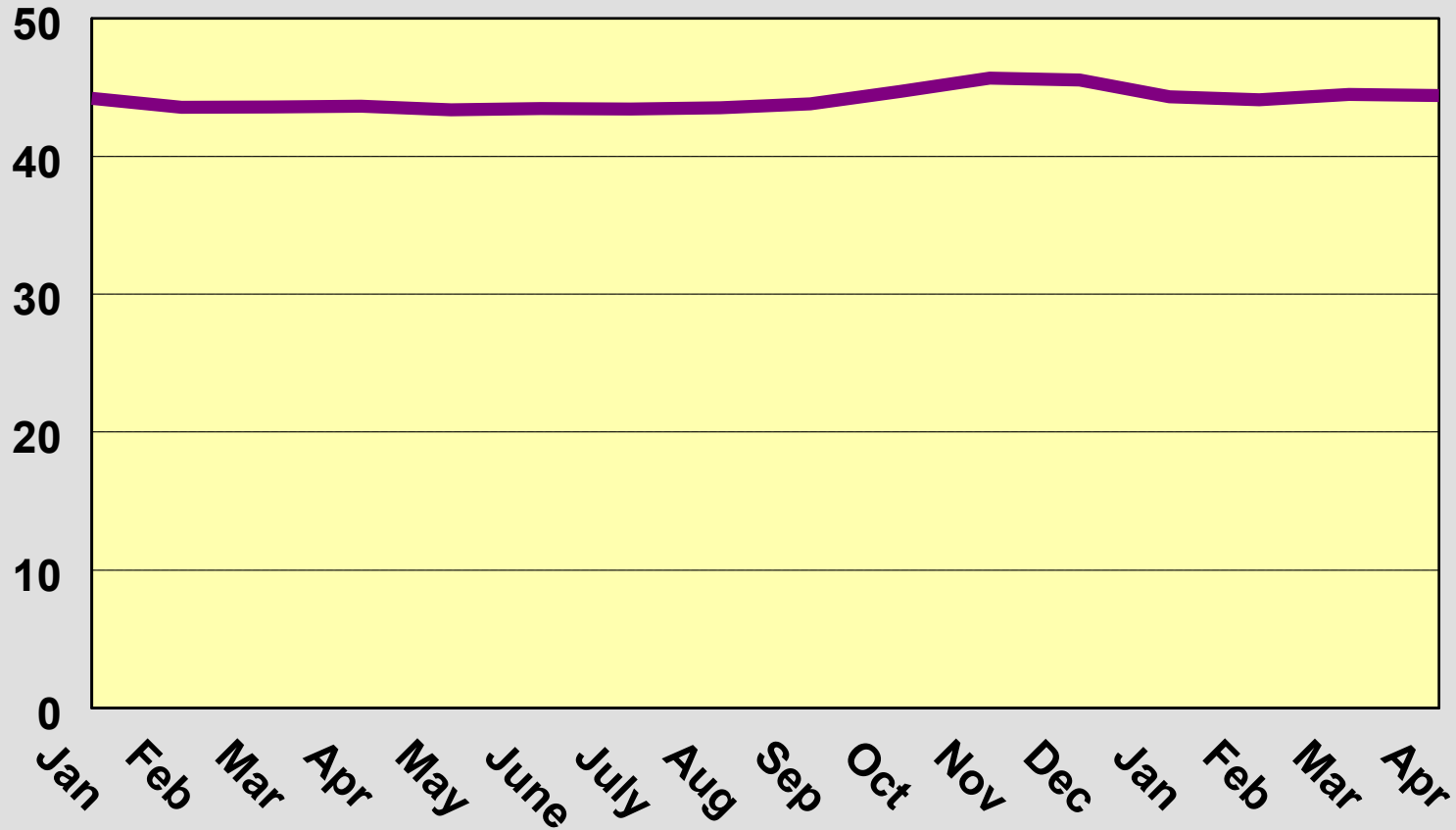
Monthly Average - December



Source: Reserve Bank of India

# Indian Rupees to 1 USD

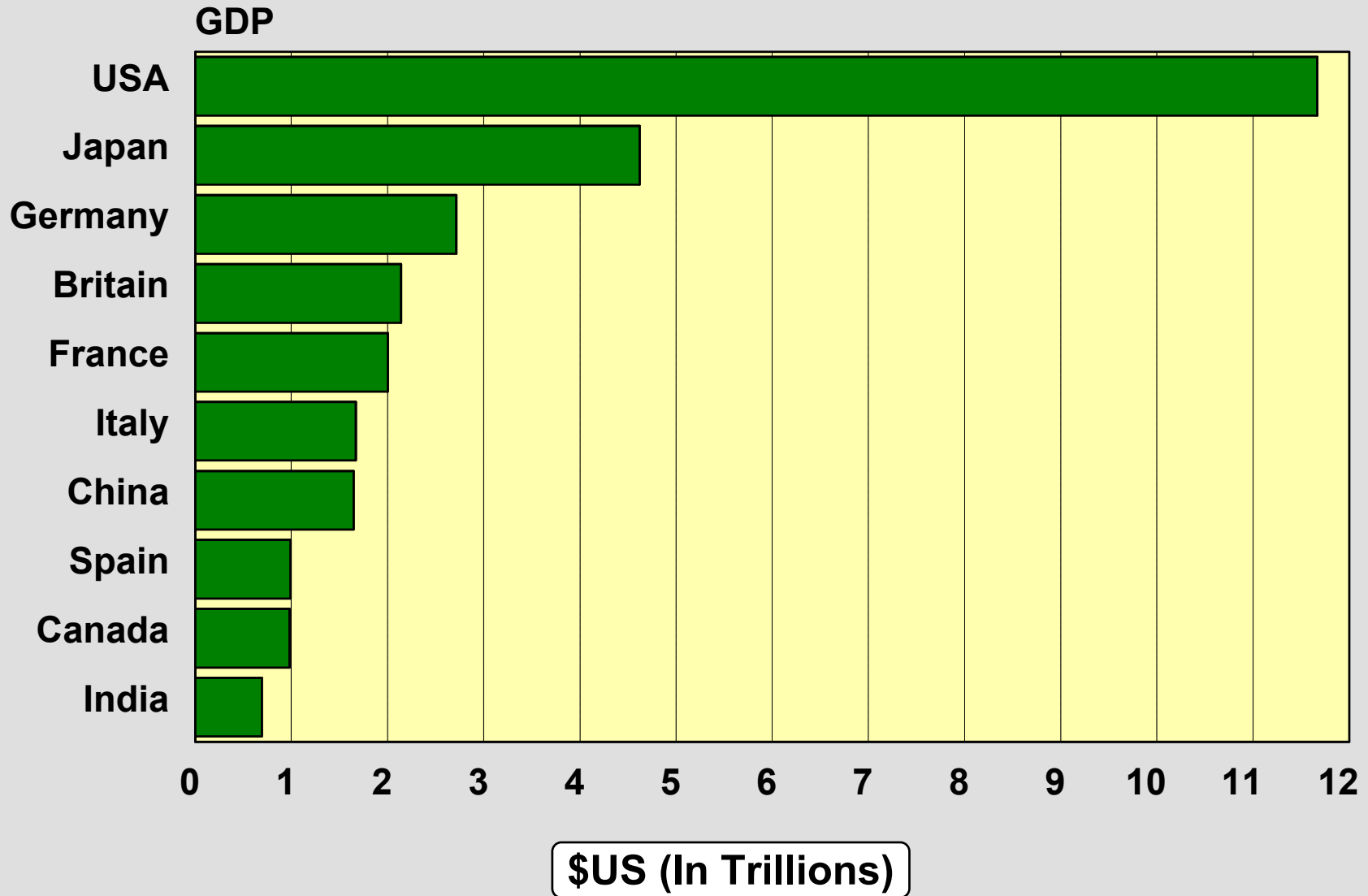
Monthly average



Source: Reserve Bank of India, CMIE

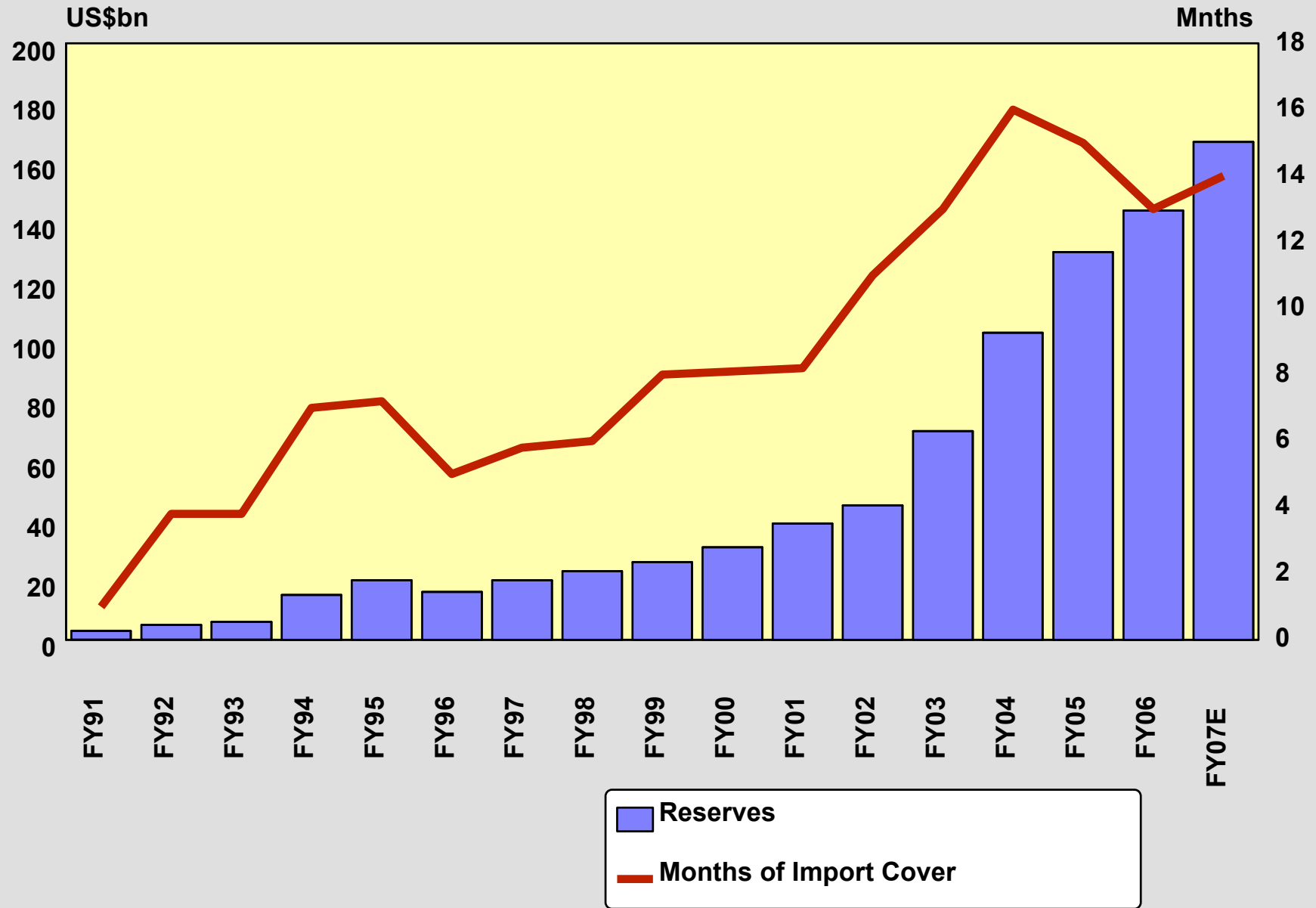


# World's Ten Wealthiest Countries



Source: World Bank

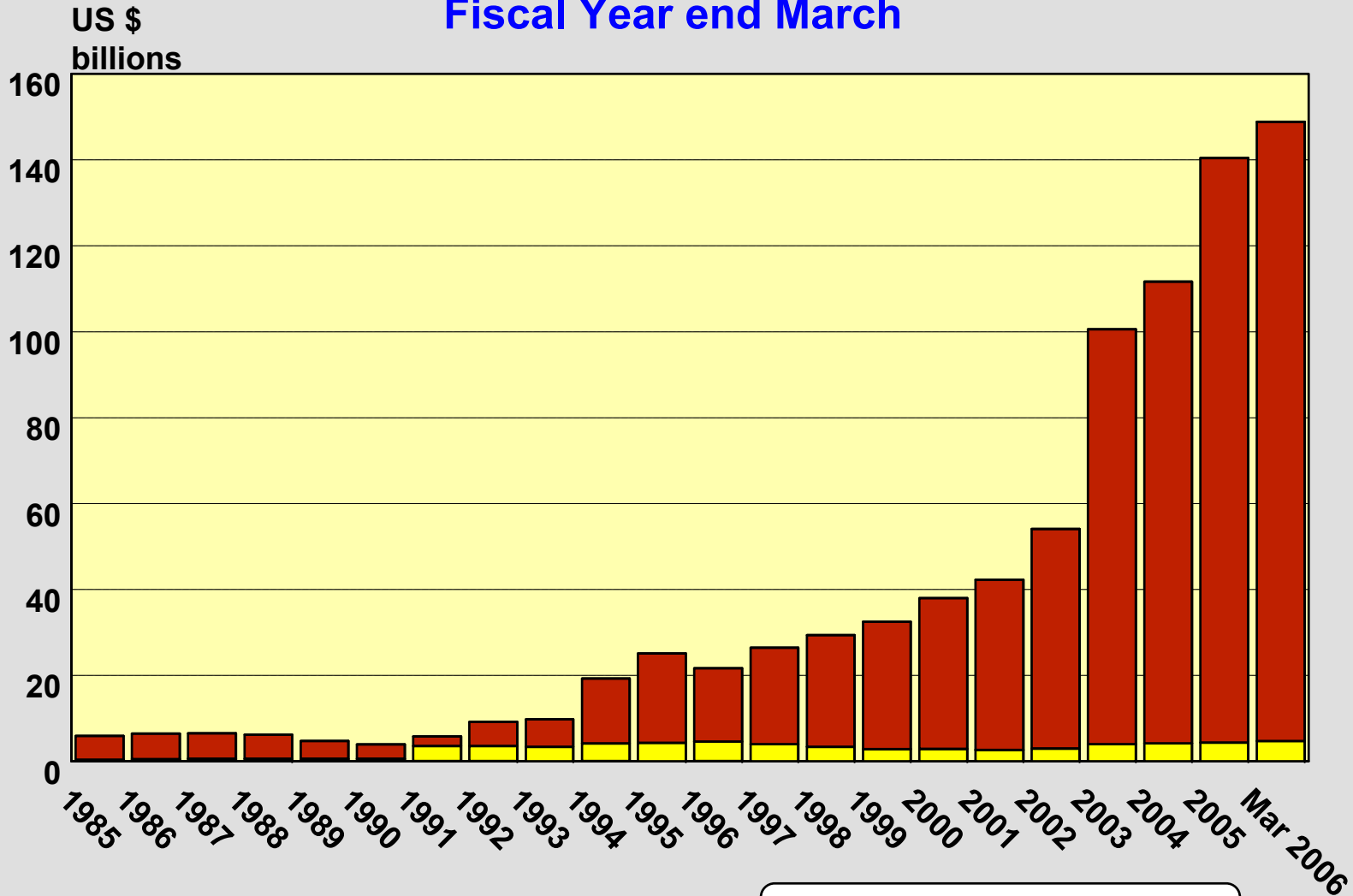
# Forex Reserves Increase and Import Cover



Source: DGCI&S; RBI; Citigroup

# Foreign Exchange Reserves

Fiscal Year end March



Source: Reserve Bank of India

# Exports by Commodity

## A China-India Comparison

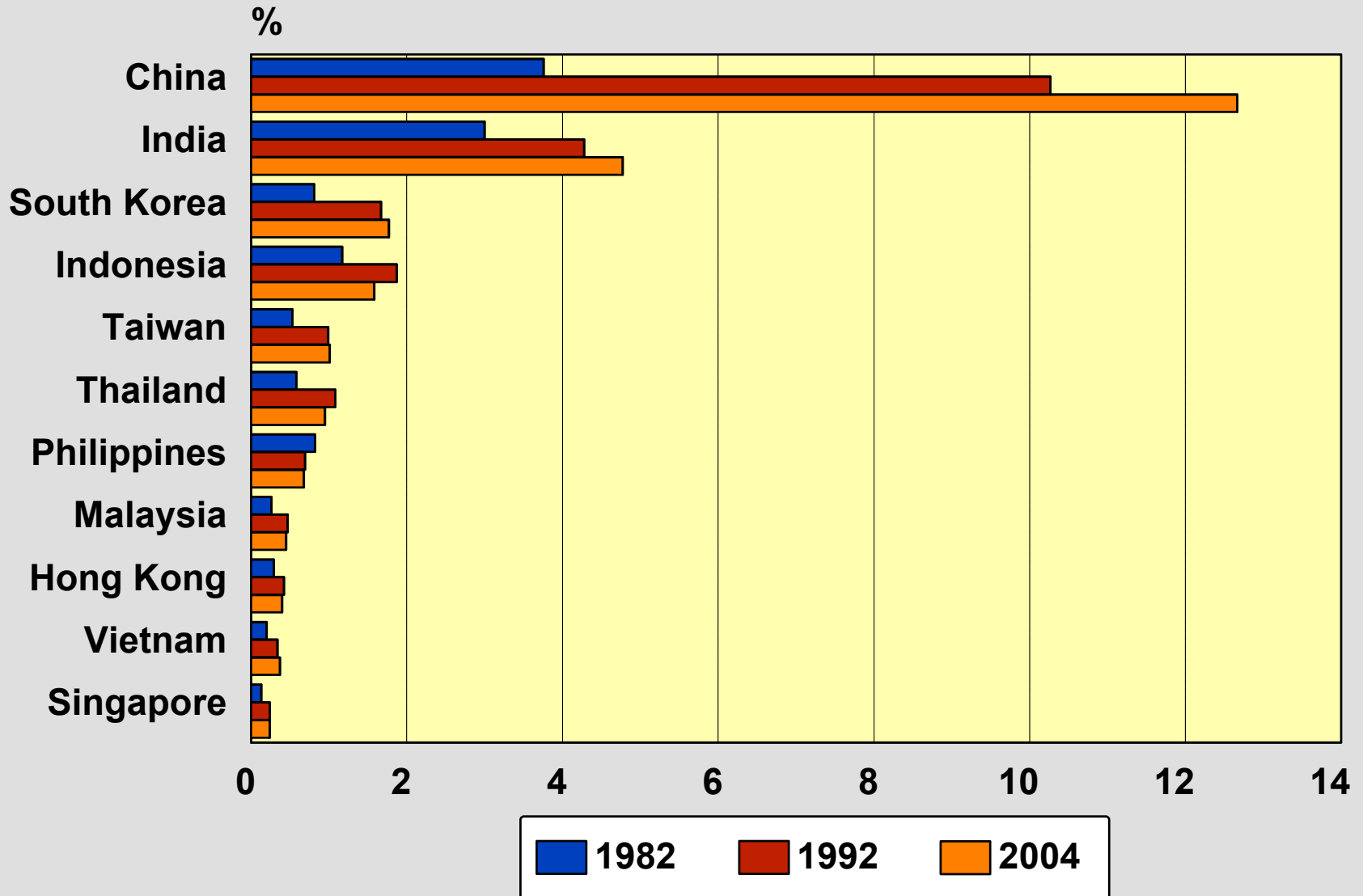
	China	India
<b>Agricultural products</b>	<b>22.2</b>	<b>7.9</b>
<b>Fuels and mining products</b>	<b>18.1</b>	<b>6.4</b>
<b>Manufactures</b>	<b>397.0</b>	<b>48.0</b>
Of which		
Iron and steel	4.8	2.9
Chemicals	19.6	7.3
Machinery and transport equipment	187.8	6.1
Textiles and clothing	79.0	13.5
Others	105.8	18.2
<b>Total</b>	<b>437</b>	<b>62</b>

(2003, US\$bn)

Source: WTO

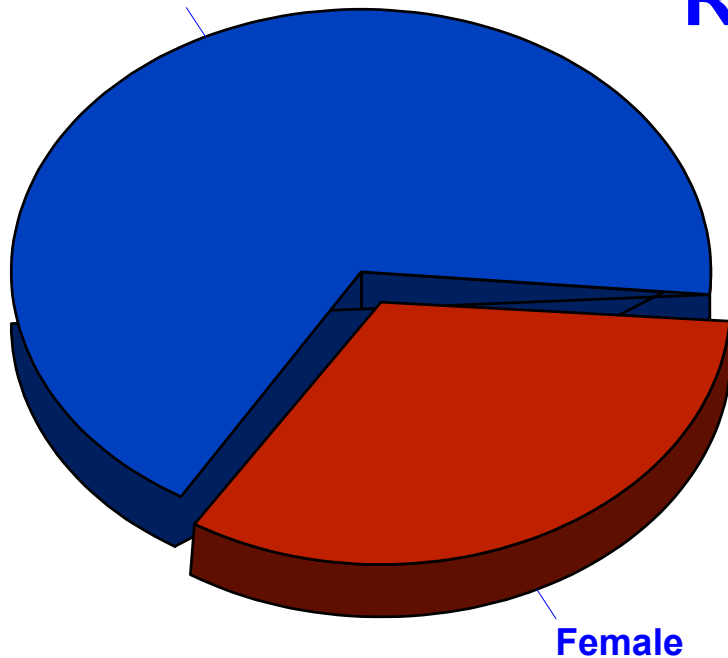
# Share of World Output

Select Asian Developing Countries -- 2004



Source: IMF

Total pop. of India



## Rural India



91

Total female workers



248

Total female non-workers

## Urban India



36

Total female workers



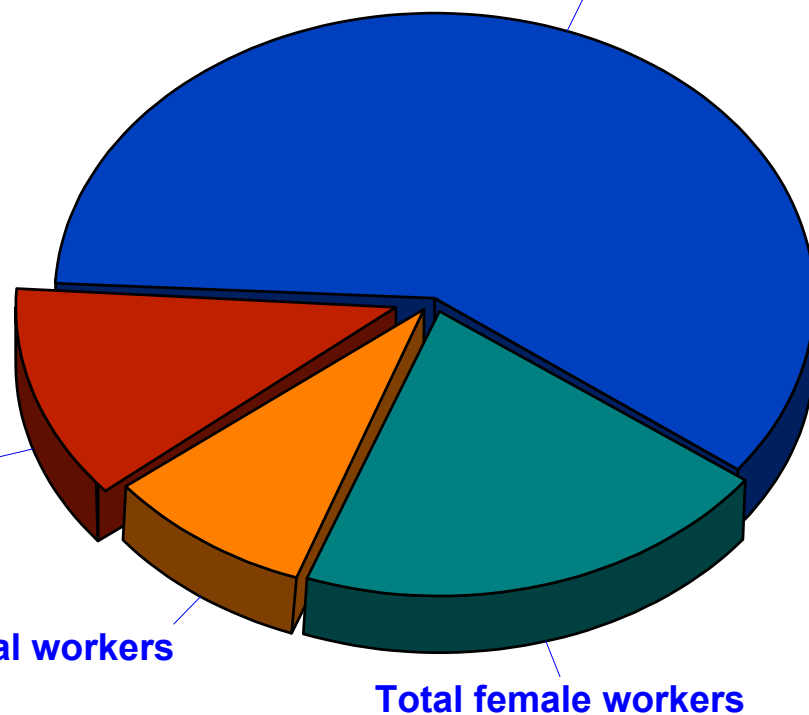
121

Total female non-workers

Main workers

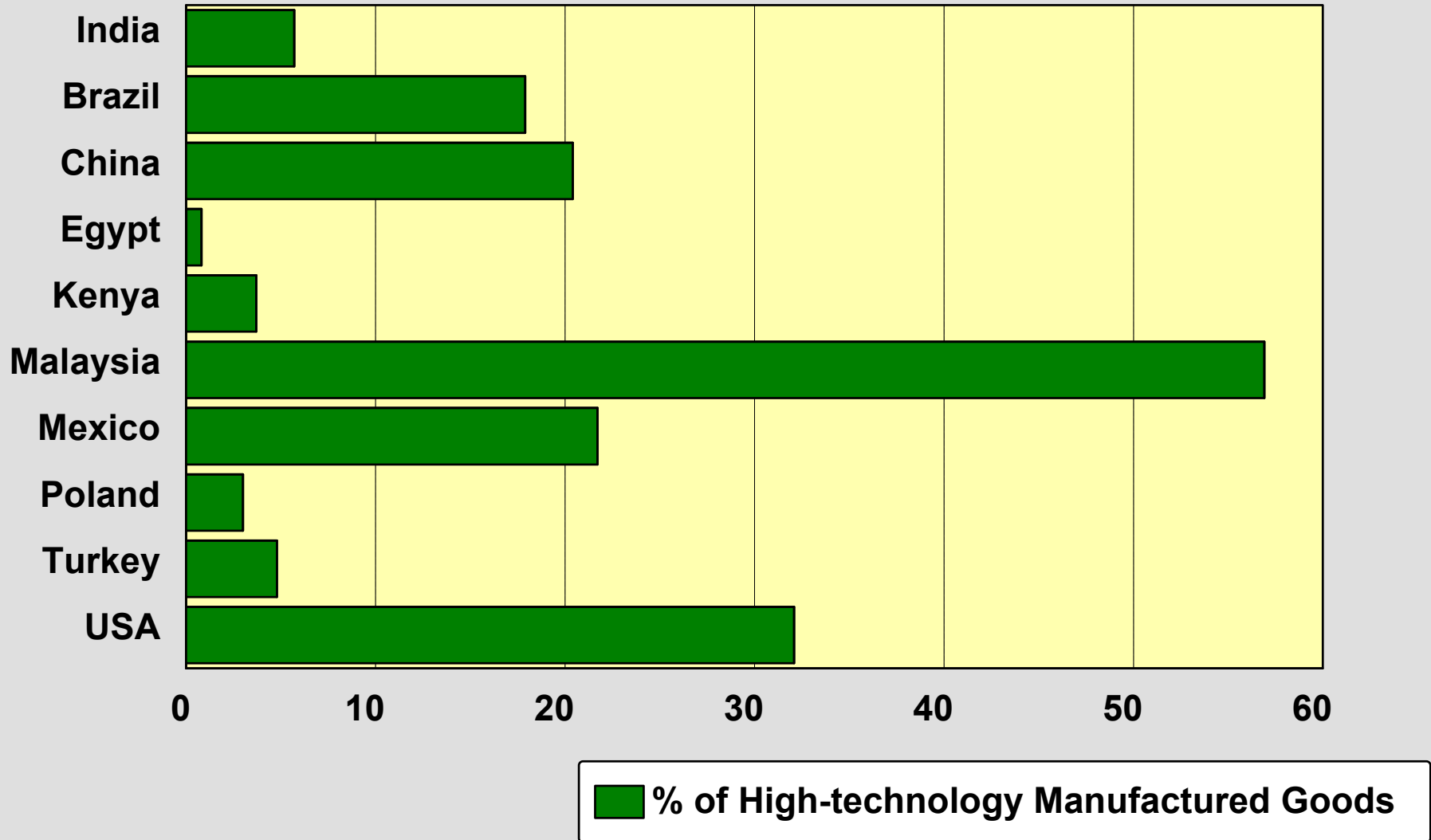
Marginal workers

Female non-workers



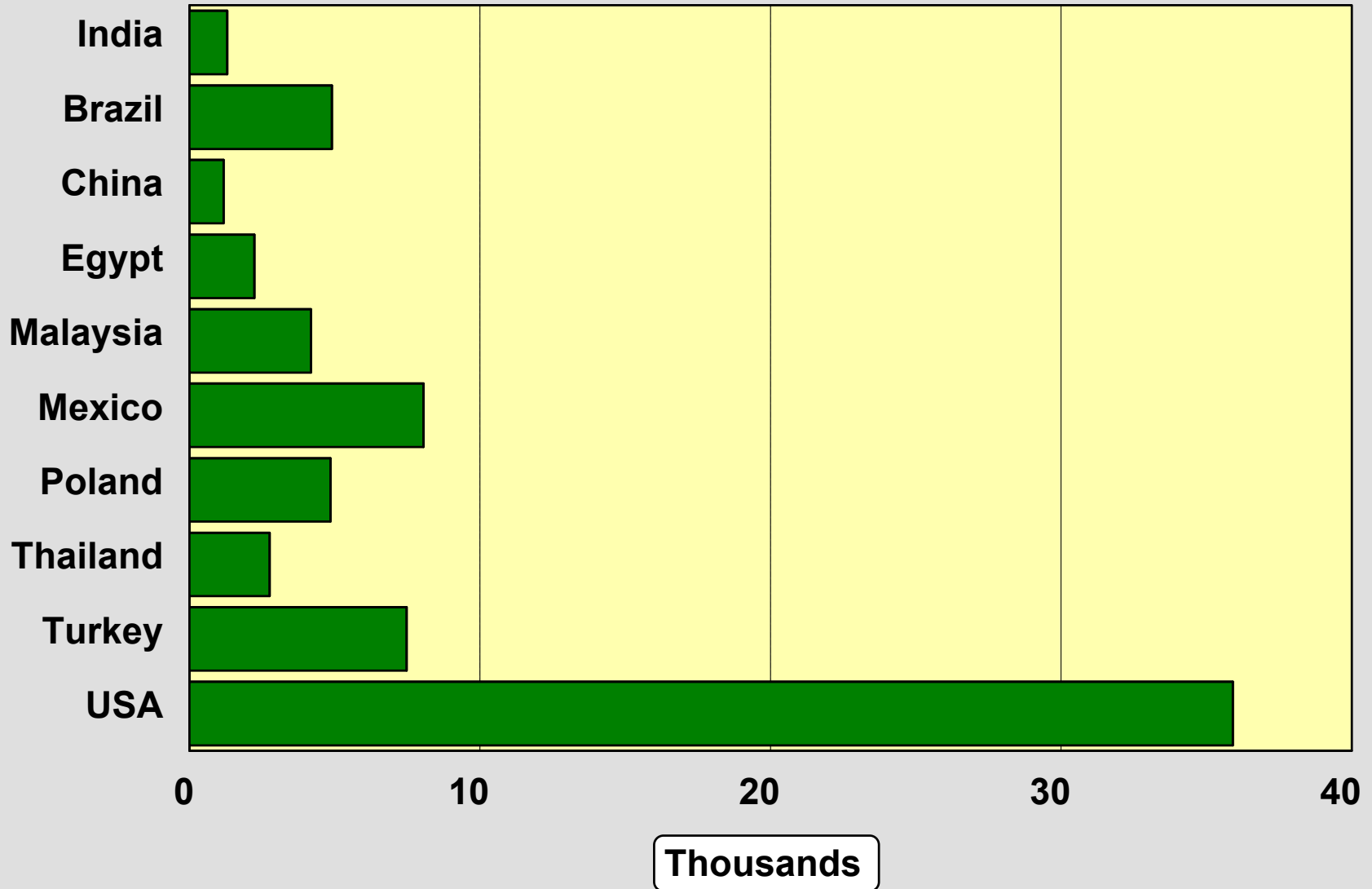
Source: 2001 Census of India (millions)

# Comparative Export of High-Technology Manufactured Goods



Source: Dun & Bradstreet

# Comparative Annual Wages in Manufacturing

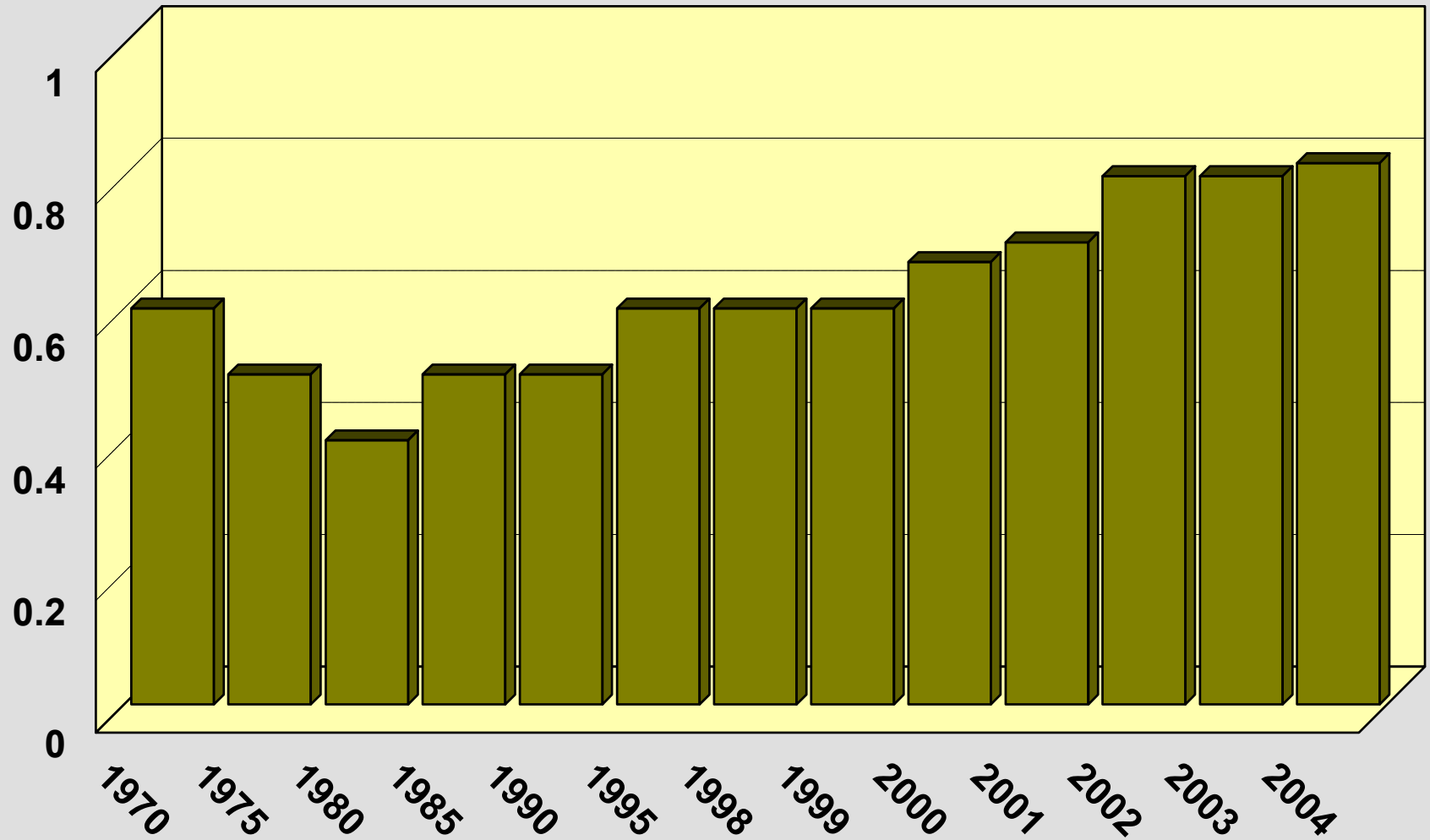


Source: Dun & Bradstreet



# India's Share of World Exports

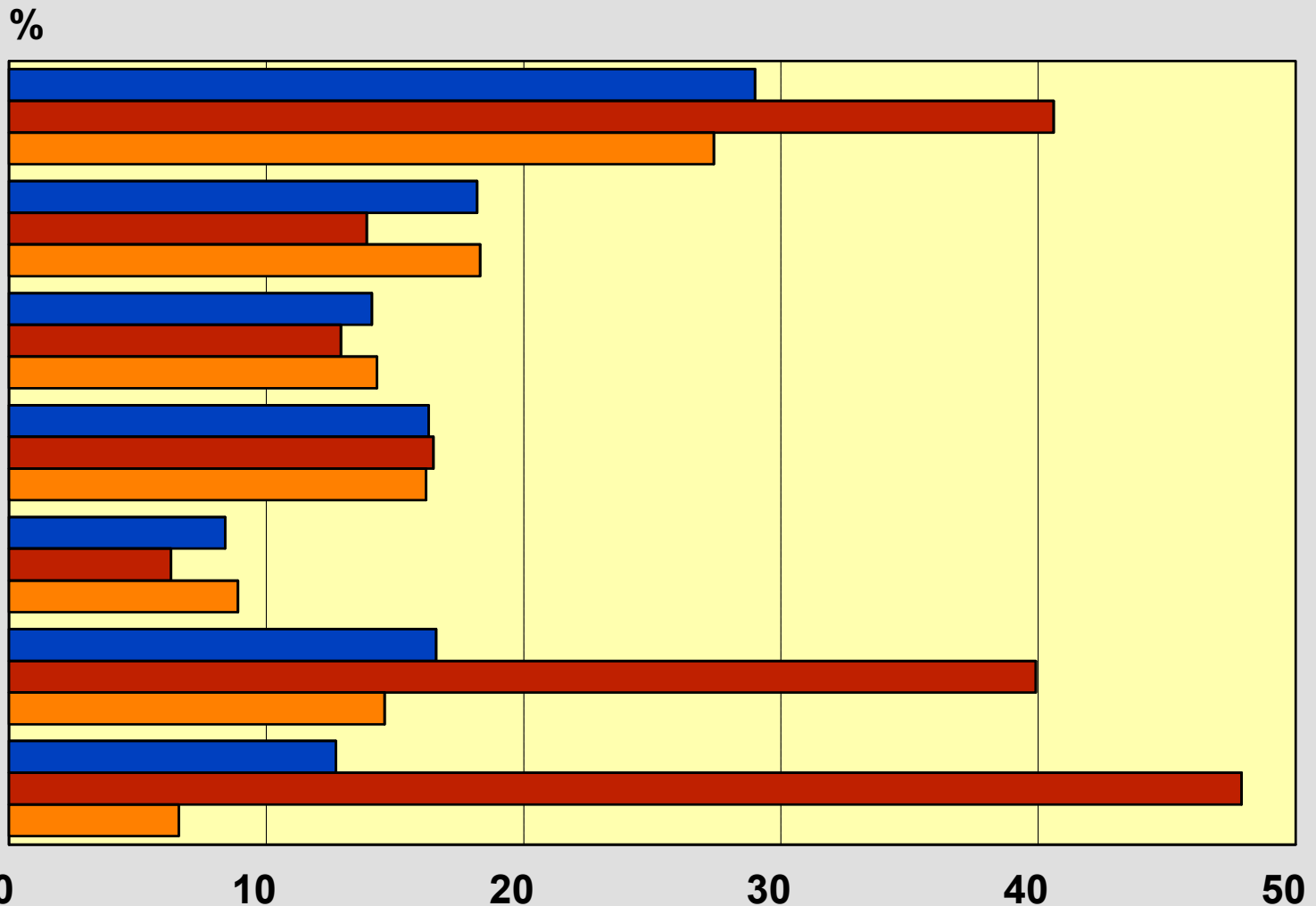
% of Global Trade



Source: IBRD; WTO

# Comparative Customs Duty Rates

India and other Developing Countries

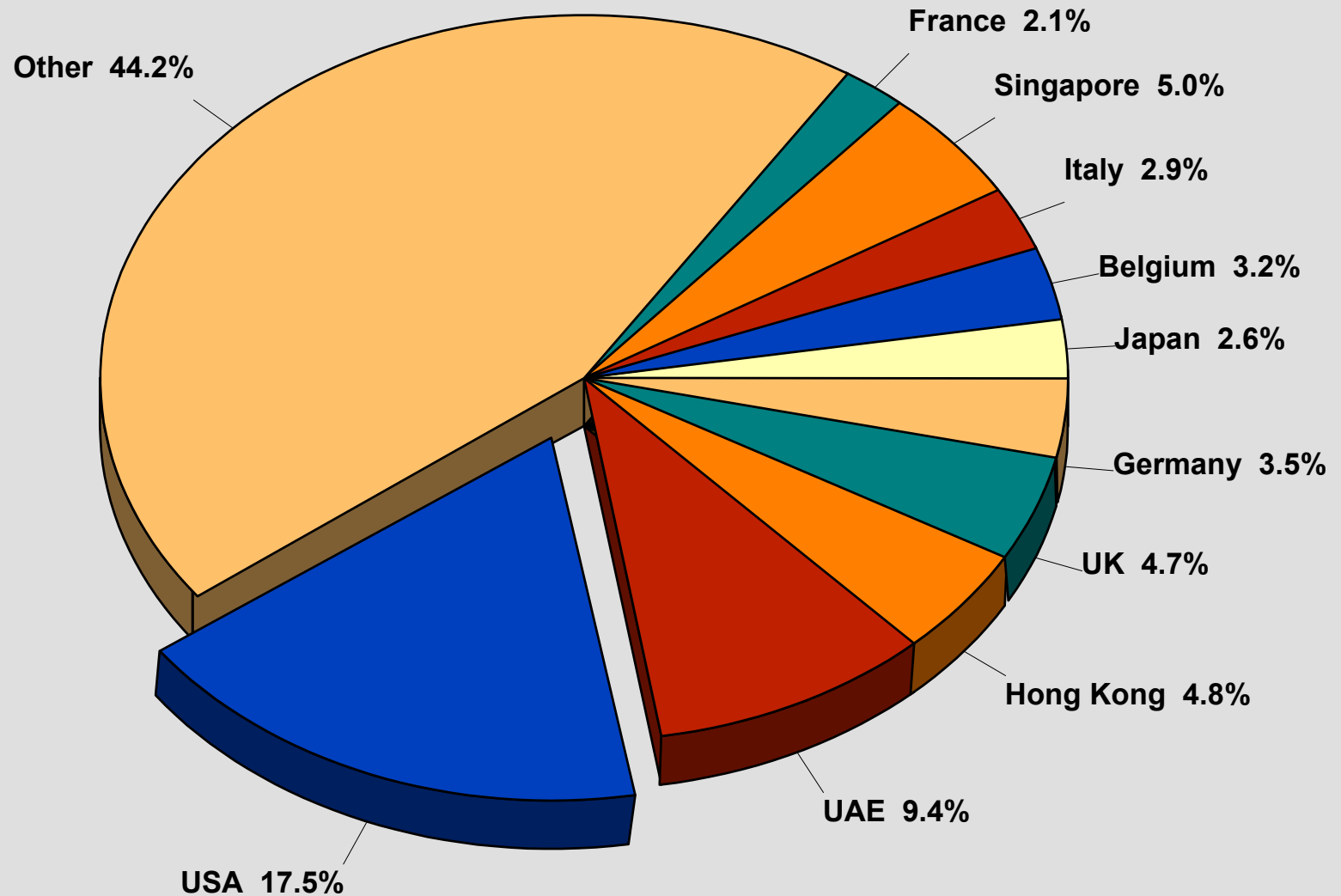


Source: IMF

■ All goods ■ Agriculture ■ Manufacturing

# India's Top Trade Partners - Exports

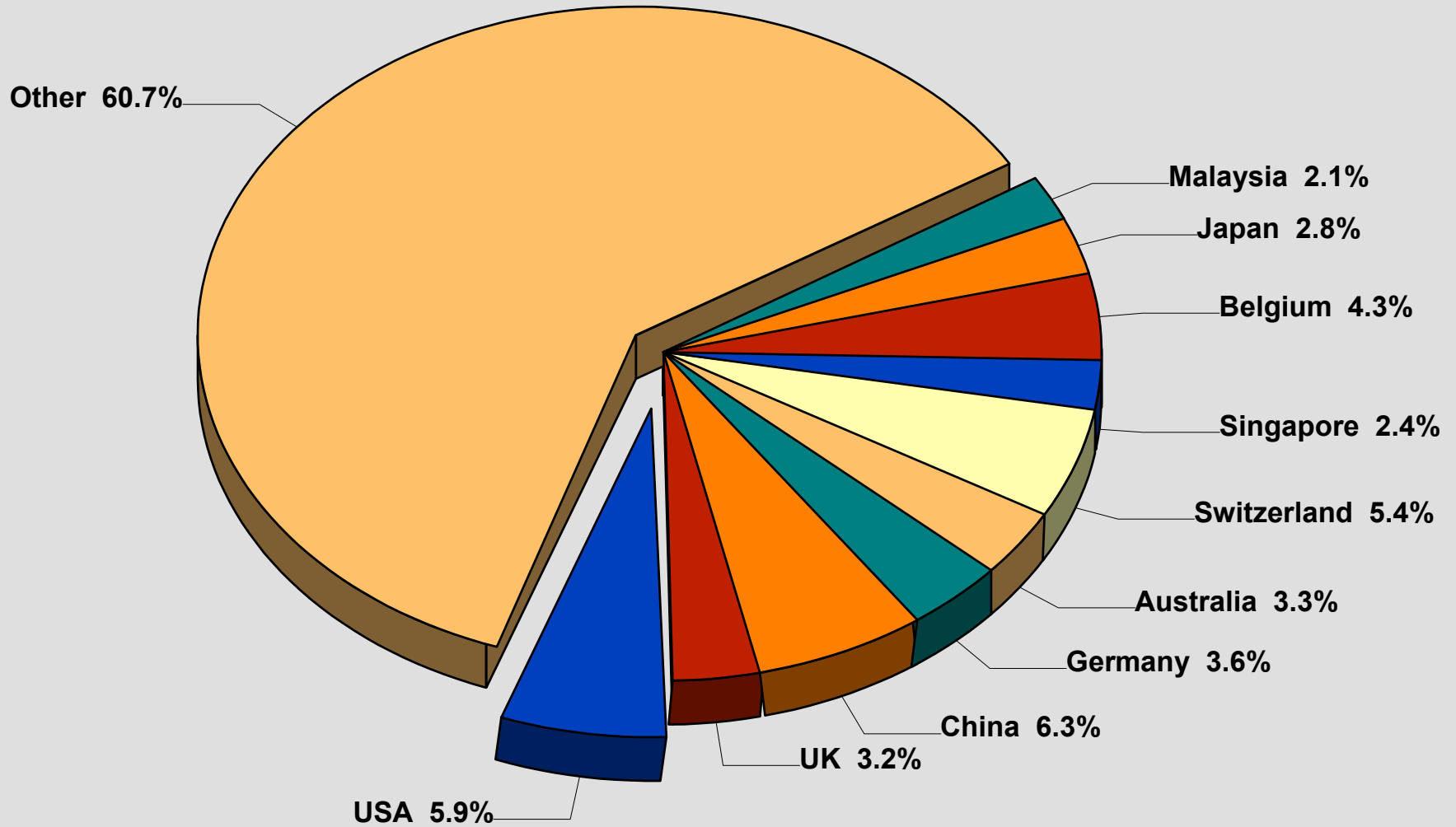
2004-2005



Source: India Trade promotion Organization

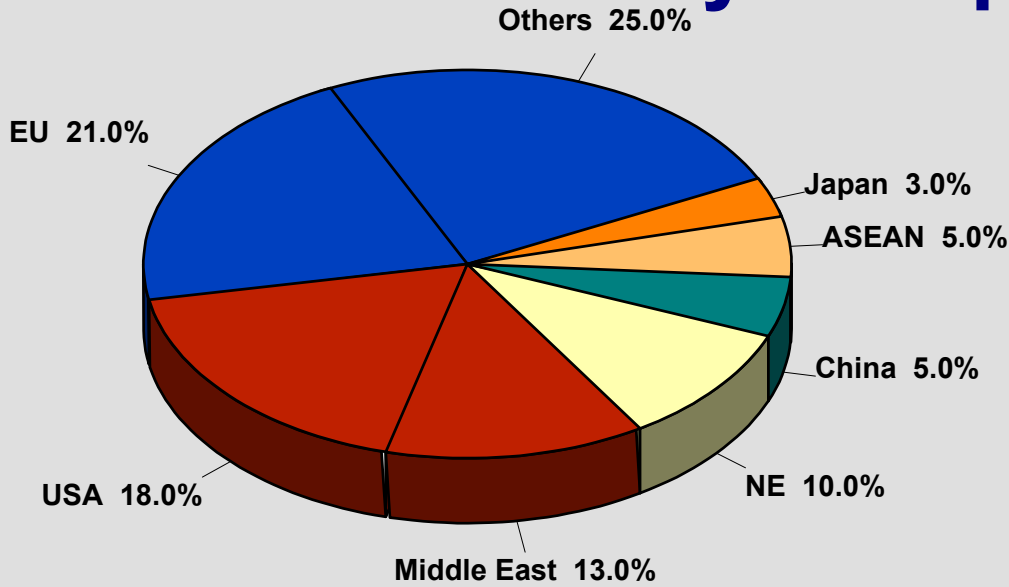
# India's Top Trade Partners - Imports

## 2004-2005



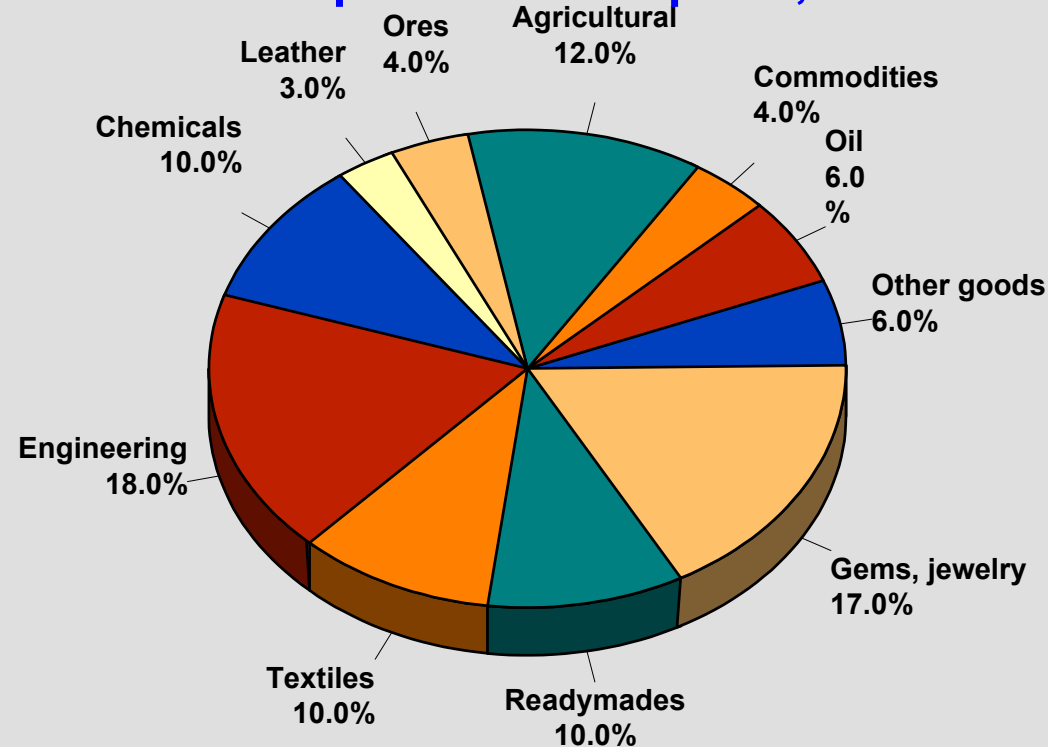
Source: India Trade promotion Organization

# Commodity Composition of Trade



**Direction of Exports, FY04**

## Composition of Exports, FY04



# U.S. Business Complaints

- ① Excessive government interference.
- ① High tariffs and excessive indirect taxes
- ① Differential tax rates for foreign companies.
- ① Restrictions on foreign investment.
- ① Substandard infrastructure.
- ① Questions about 'sanctity of contract.'
- ① Weak enforcement of intellectual property rights.

# Estimated Trade Losses Due To Copyright Piracy And Piracy Levels In-Country

	Motion Pictures		Records & Music		Business Software		Entertainment Software		Books	Total Losses
	Losses	Piracy Levels	Losses	Piracy Levels	Losses	Piracy Levels	Losses	Piracy Levels	Losses	
Pakistan	12.0	NA	70.0	100%	14.0	82%	NA	NA	52.0	148.0
Indonesia	32.0	92%	27.6	80%	100.0	87%	NA	NA	32.0	191.6
India	360.0	55%	102	50%	520.0	73%	59.5	86%	90.0	483.8
Russia	275.0	80%	411.9	66%	800.0	87%	255.8	73%	42.0	1784.7
China	280.0	95%	202.9	85%	1488.0	90%	510.0	90%	50.0	2530.0

(Cost in millions of U.S. dollars)

Source: International Intellectual Property Alliance

# Principal Products of U.S.-India Merchandise Trade

Top ten products in 2005 -- US \$ millions

U.S. Imports from India	Amount	U.S. Exports to India	Amount
Gems and jewelry	4,730	Airplanes/aircraft machinery	467
Womens/girls blouses	336	Fertilizers	413
Mens/boys shirts	294	Ferrous waste/scrap	126
Petroleum oils	303	Bituminous coal	150
Shrimps/prawns	290	Transmission apps	107
Sweaters/pullovers	271	Industrial oils	99
Cashew nuts	261	Almonds	94
Womens/girls skirts	281	Jewelry and parts	101
Industrial oils	249	Digital data processors	87
Toilet/kitchen linen	247	Parts for boring machinery	86
All other	11,447	All other	5,235
Total	18,709	Total	6,965

Source: US International Trade Commission



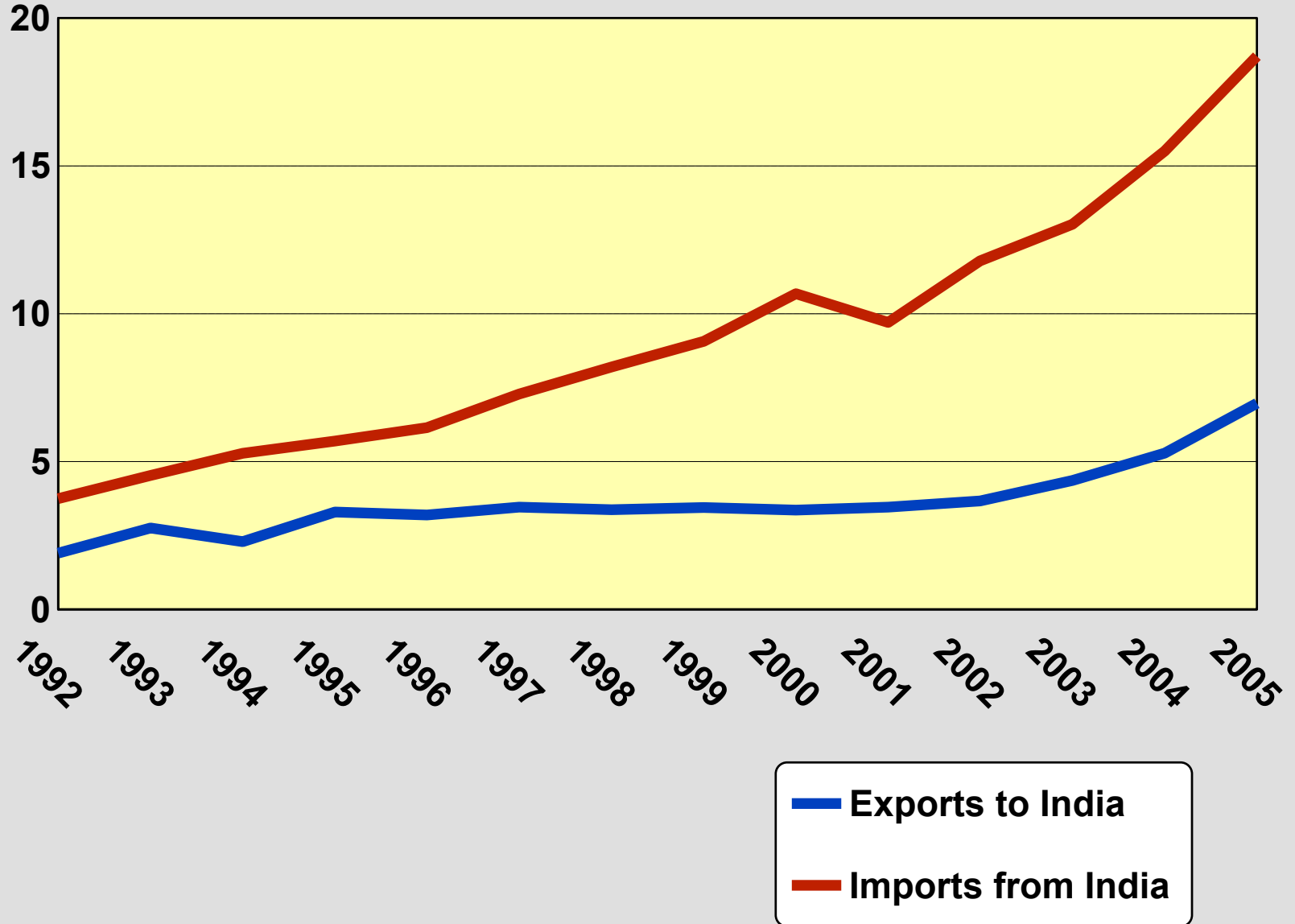
# U.S.-India Trade in Services: 2003

## US \$ millions

Service Type	U.S. exports	U.S. imports
Education	1,457	3
Travel	1,180	723
Business/prof/technical	353	420
Freight	170	81
Telcom	129	428
Royalties and license fees	115	8
Intra-company services	110	262
Port services	83	66
Financial services	56	19
Passenger fares	26	167
Film/TV/tape rentals	14	0
Insurance	5	5
Other	14	2
Total Services	3,728	2,184

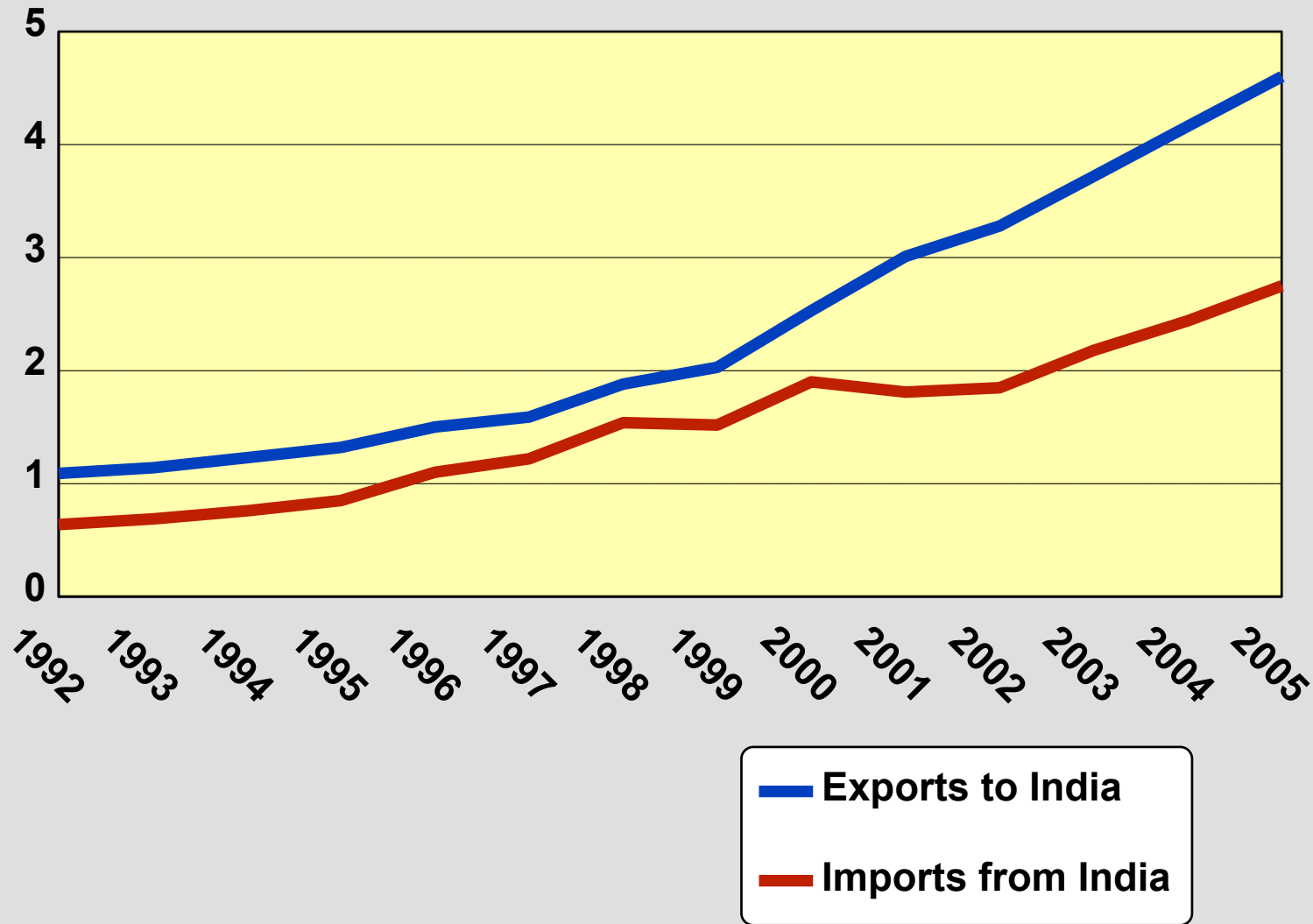
Sources: US International Trade Commission

# U.S. - India Trade in Goods



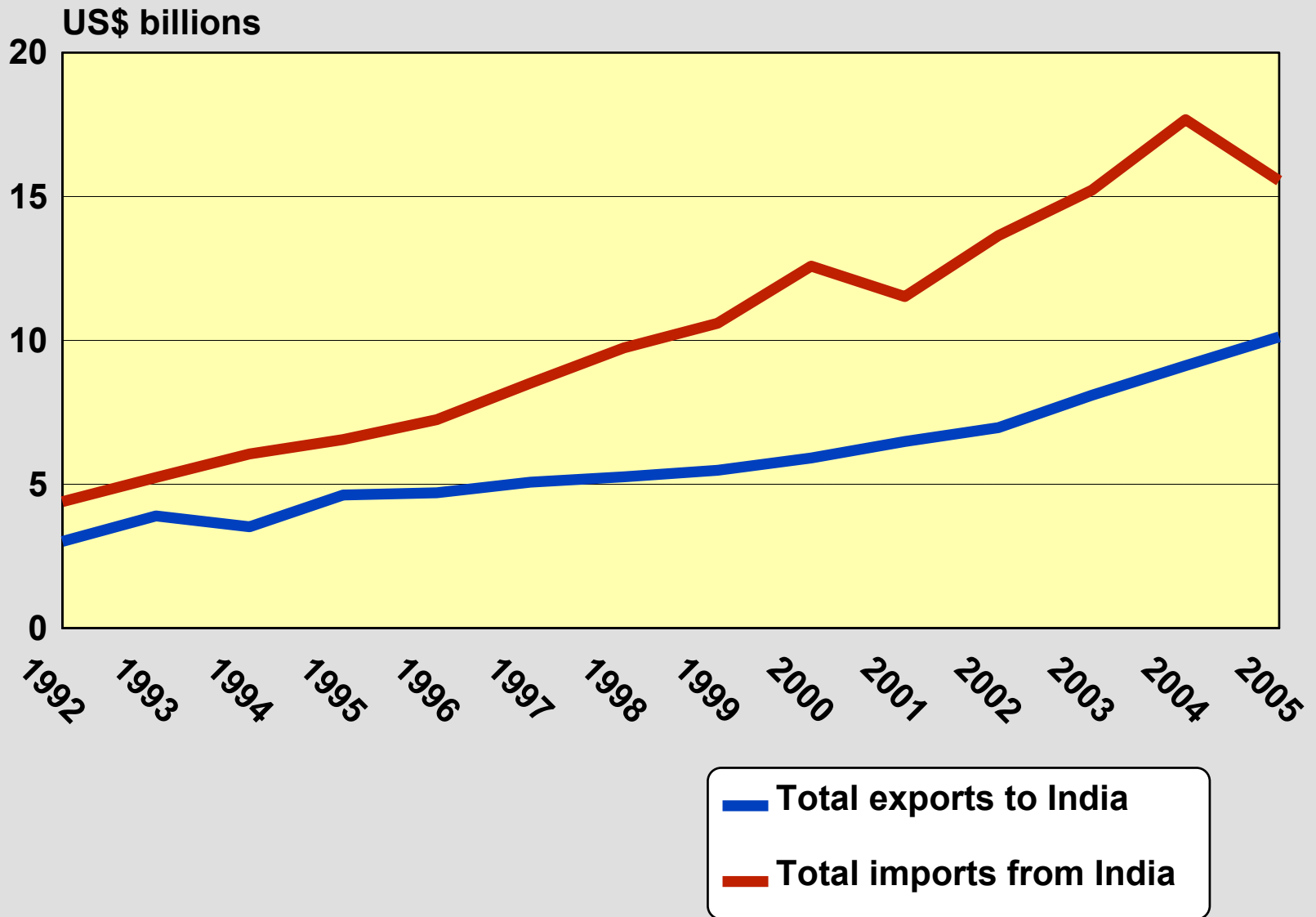
Source: International Trade Commission

# U.S. - India Trade in Services



Source: International Trade Commission

# Total U.S. Trade with India



Source: International Trade Commission

# Top Ten Reasons Favoring FDI in Retailing

- Experience of other countries shows that retailing has attracted significant FDI.
- FDI would bring technical know-how and skill.
- It would speed up the growth of organized retailing, set up supply chains and lead to implementation of Information Technology.
- Joint ventures would ease capital constraints of existing organized retailers.
- Domestic retailers would get access to global best management practices.
- Sourcing from India would increase.
- There will be more investment in upstream activities and allied sectors.
- Competition would drive down prices.
- Protection leads to inefficiency.
- FDI would lead to development of different retail formats and modernization of the sector.

**Source: FDI in Retail Sector, India 2005**

# States Attracting Highest FDI Flows in India (2000-2003)

	2000		2001		2002		2003	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
Delhi	24576	30.6	69183	18.9	29943	18.5	21047	22
Maharashtra	35789	44.5	29917	43.7	48657	30.1	10228	10.7
Karnataka	5826	7.2	13104	8.3	8929	5.5	9991	10.5
Tamil Nadu	5519	6.87	7427	4.7	13412	8.3	8055	8.4
Chandigarh					8426	5.2		
Gujurat							10426	10.9
Andra Pradesh	2517	3.13	3398	2.1				

(Amount in INR millions)

# Sectoral FDI Equity Caps

Sector	FDI cap in %
Retailing (single-brand only)	51
Real Estate	0
Small Scale Industries	24
New print media	26
Insurance	26
Defense Industry Sector	26
Refining with Public Cos	26
Private Sector Banking	74*
Domestic Airlines	49
Telecommunications	74
Trading	51
Internet service provider	74
Mining	74
Oil marketing	100

\*Includes FDI and FII

Source: Ministry of Commerce and Industry

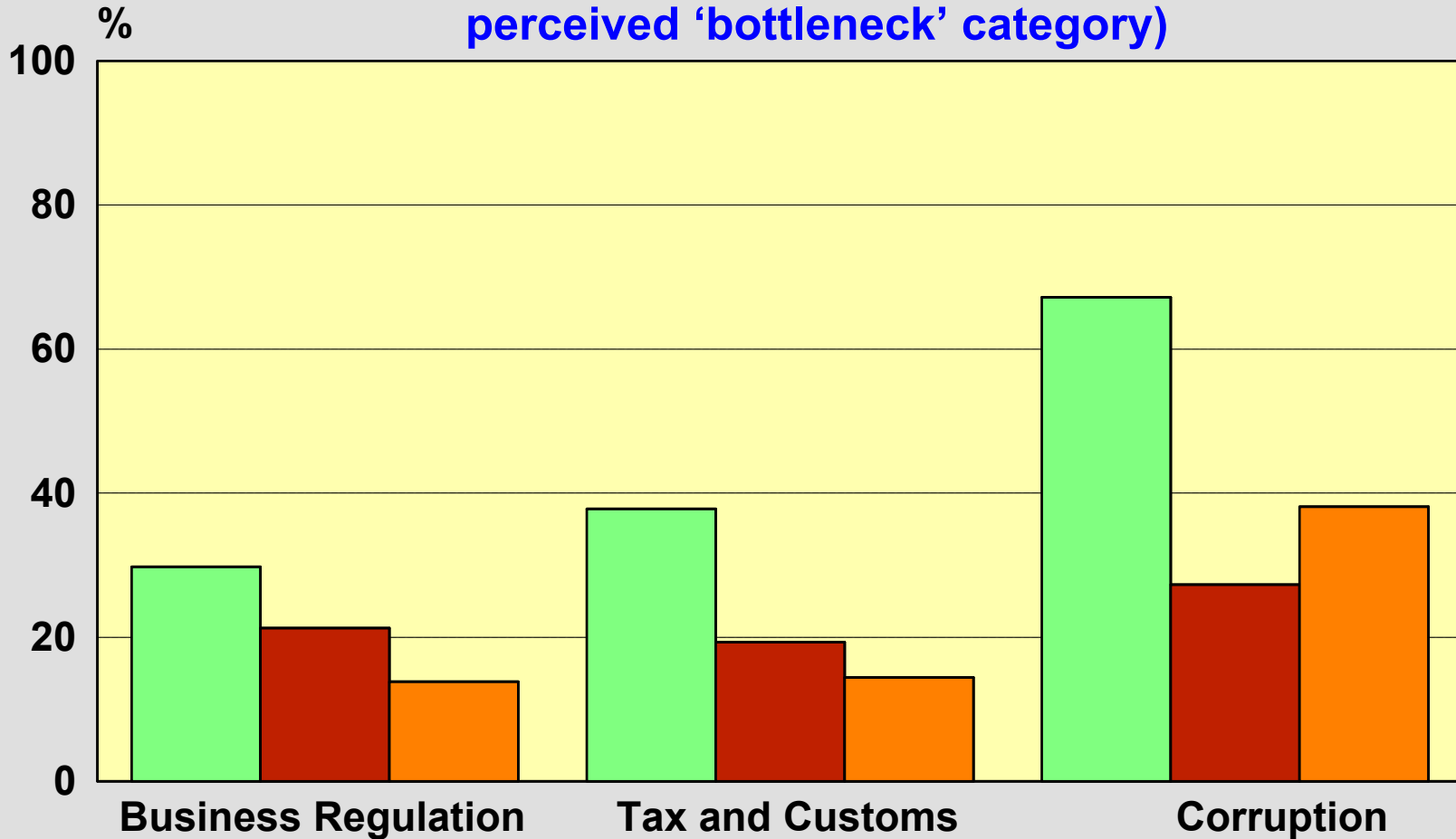
# More Economic Data and Forecasts

- ① A 36% surge in imports at US\$106bn resulted in India's trade deficit touching a record high of US\$26.5bn in FY05 compared to US\$14.3bn in FY04.
- ① The predicted trade deficit for FY06 is US\$30.9bn.
- ① Citigroup estimates that the value of Indian currency is expected to decline by 15% over the next 4 years.
- ① India's savings rate has risen to 28.1%, while investments have risen by 26.3%.
- ① Non-agricultural sector growth may trend to 9% in the coming years.
- ① In FY04, India committed more revenue to subsidies (nearly US\$1bn) than it did to non-capital defense expenditures.
- ① Almost 55% of India's tax revenue in FY04 was collected from excise duties and customs collections.
- ① India's FY06 budget targets a fiscal deficit of 4.3% of GDP.
- ① In India, services account for nearly 50% of GDP.



# Bottlenecks to Growth

(Survey responses by country for each perceived 'bottleneck' category)



 Brazil

 China

 India

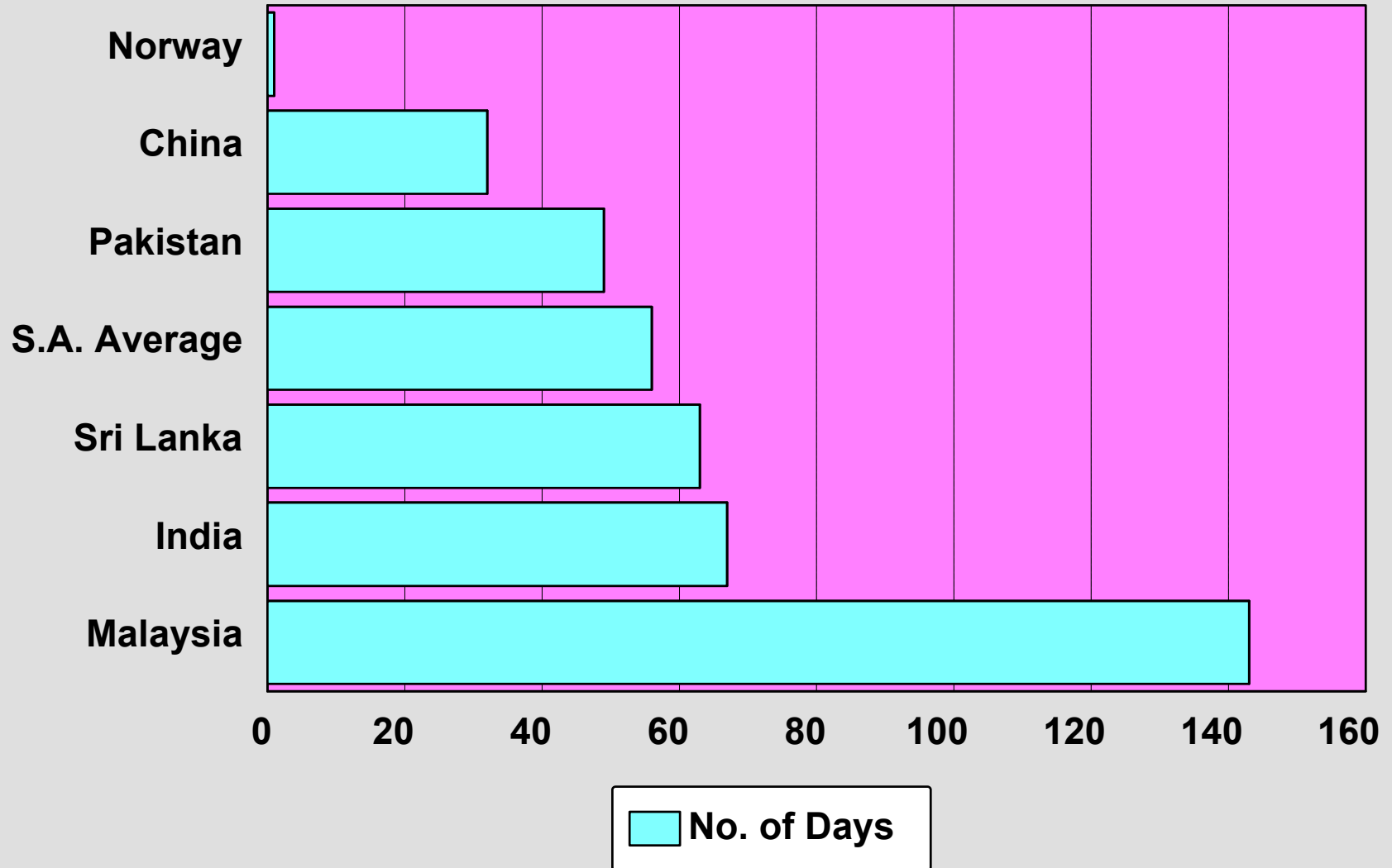
Source: World Bank Investment Climate Surveys

# Economic Freedom?

	<b>Political Freedom</b>	<b>Days taken to start a business</b>	<b>Competitiveness ranking</b>	<b>Corruption ranking</b>
<b>Brazil</b>	<b>Free</b>	<b>152</b>	<b>57</b>	<b>59</b>
<b>China</b>	<b>Not Free</b>	<b>41</b>	<b>46</b>	<b>77</b>
<b>Egypt</b>	<b>Not Free</b>	<b>43</b>	<b>62</b>	<b>102</b>
<b>India</b>	<b>Free</b>	<b>89</b>	<b>55</b>	<b>90</b>
<b>Indonesia</b>	<b>Partly Free</b>	<b>151</b>	<b>69</b>	<b>133</b>
<b>Malaysia</b>	<b>Not Free</b>	<b>30</b>	<b>31</b>	<b>64</b>
<b>Mexico</b>	<b>Free</b>	<b>58</b>	<b>48</b>	<b>64</b>
<b>Pakistan</b>	<b>Not Free</b>	<b>24</b>	<b>91</b>	<b>39</b>
<b>Philippines</b>	<b>Free</b>	<b>50</b>	<b>76</b>	<b>102</b>
<b>Russia</b>	<b>Not Free</b>	<b>36</b>	<b>70</b>	<b>71</b>
<b>South Korea</b>	<b>Free</b>	<b>22</b>	<b>29</b>	<b>47</b>
<b>Thailand</b>	<b>Free</b>	<b>33</b>	<b>34</b>	<b>90</b>

**Source: Economic Times**

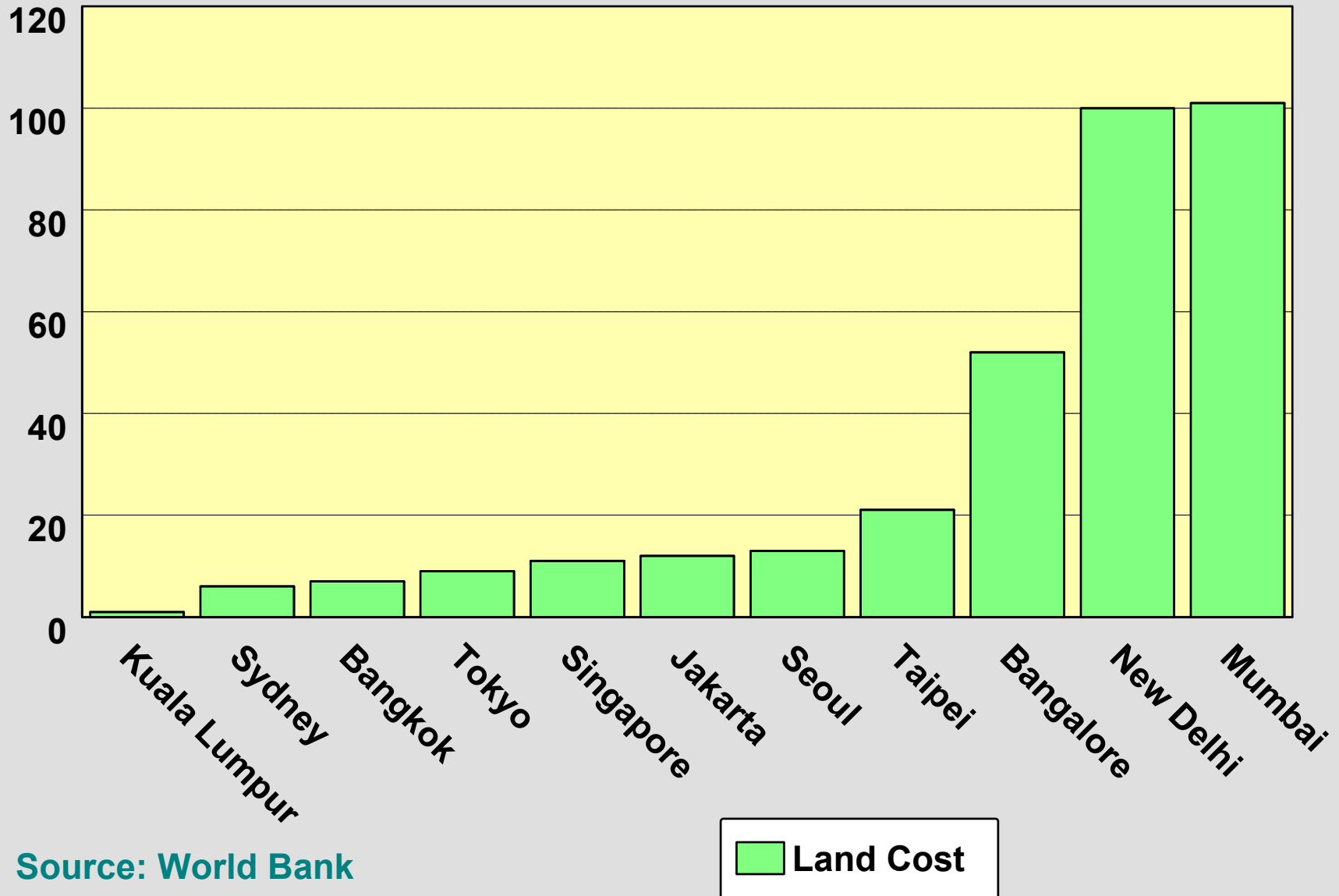
# Time Taken to Register Property



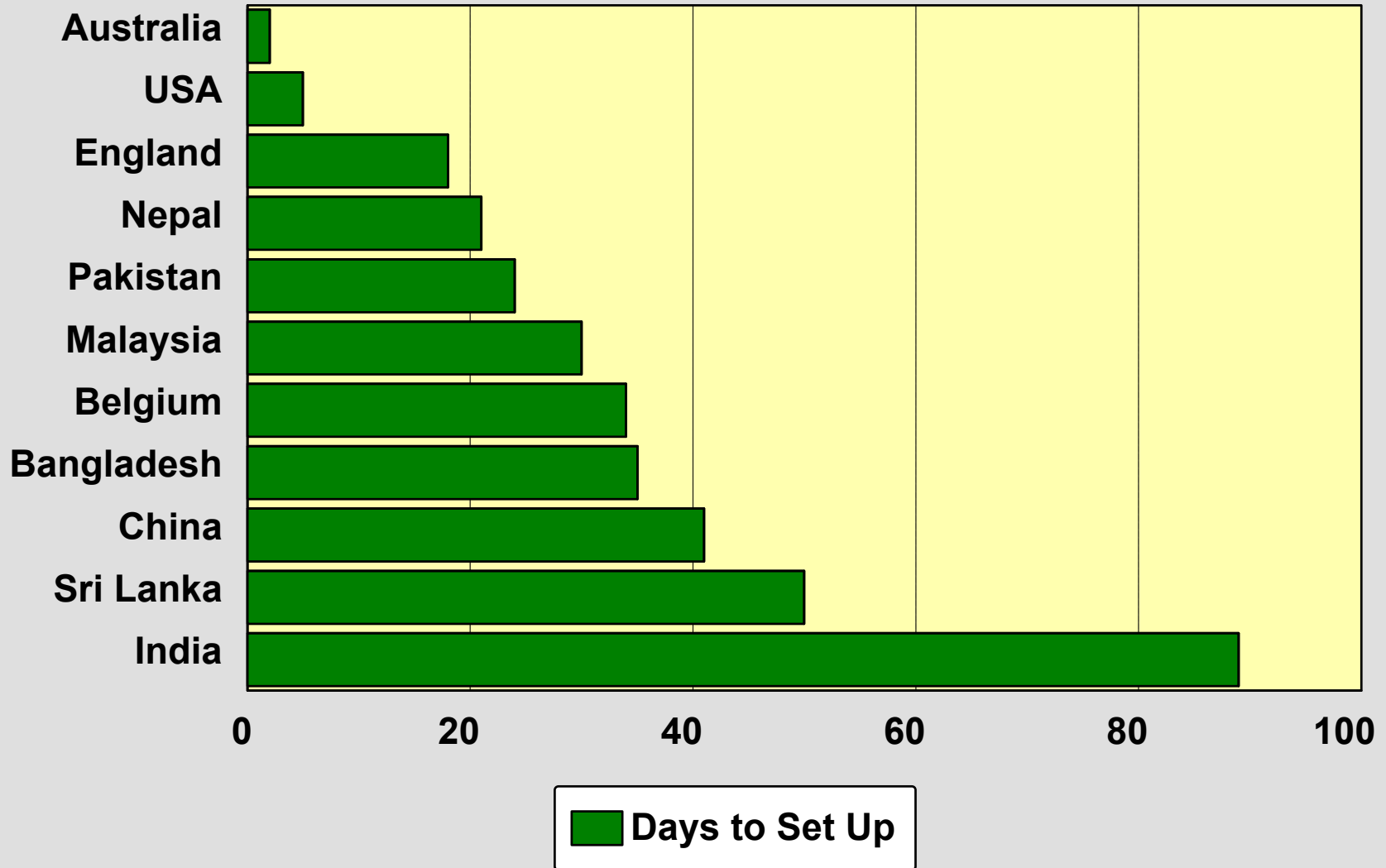
Source: World Bank

# Land Cost Relative to Income Level

(Ratio of land cost/sq.m to GDP per capita in 1999, indexed to New Delhi - 100)

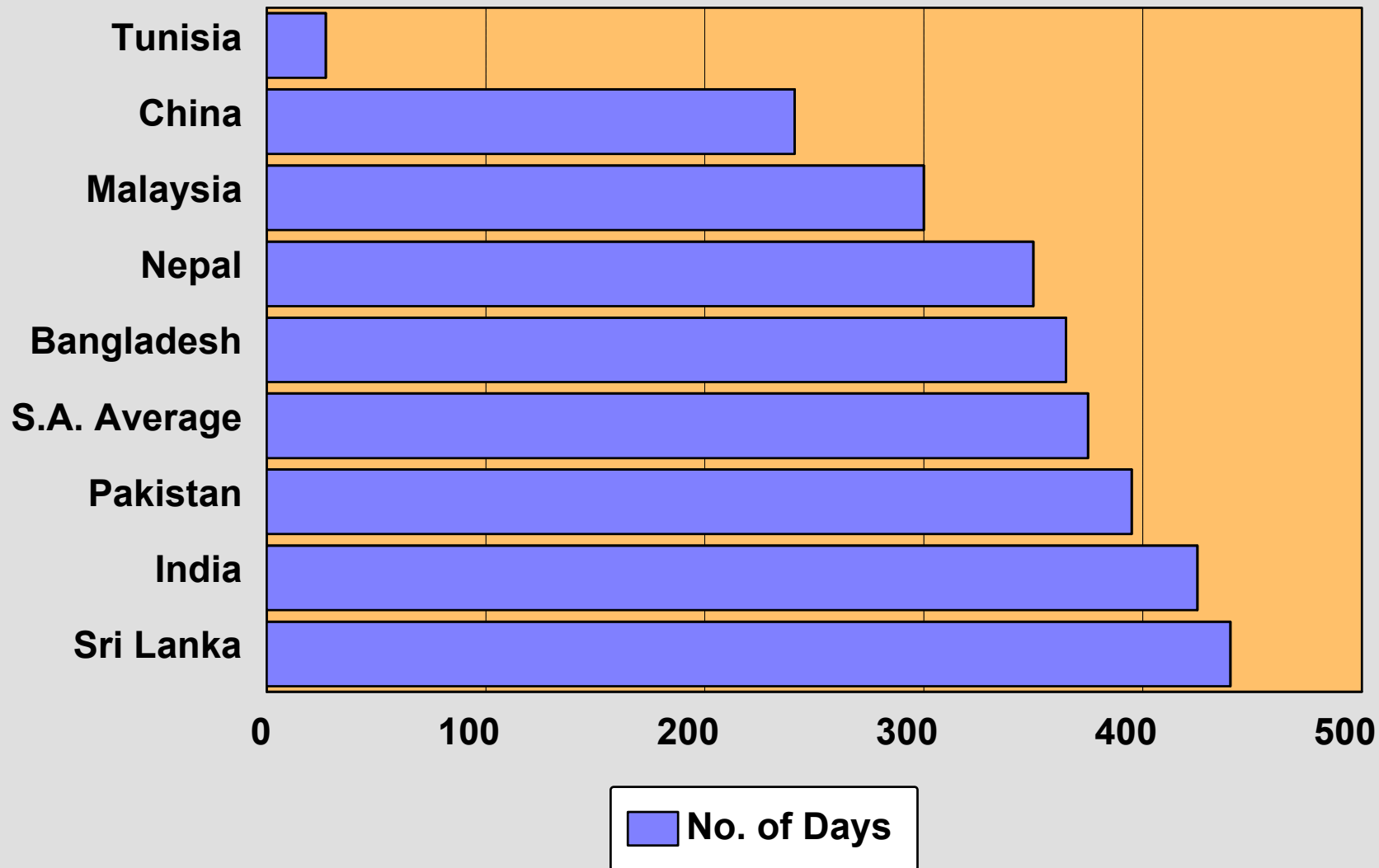


# Start-up Times for New Businesses



Source: World Bank

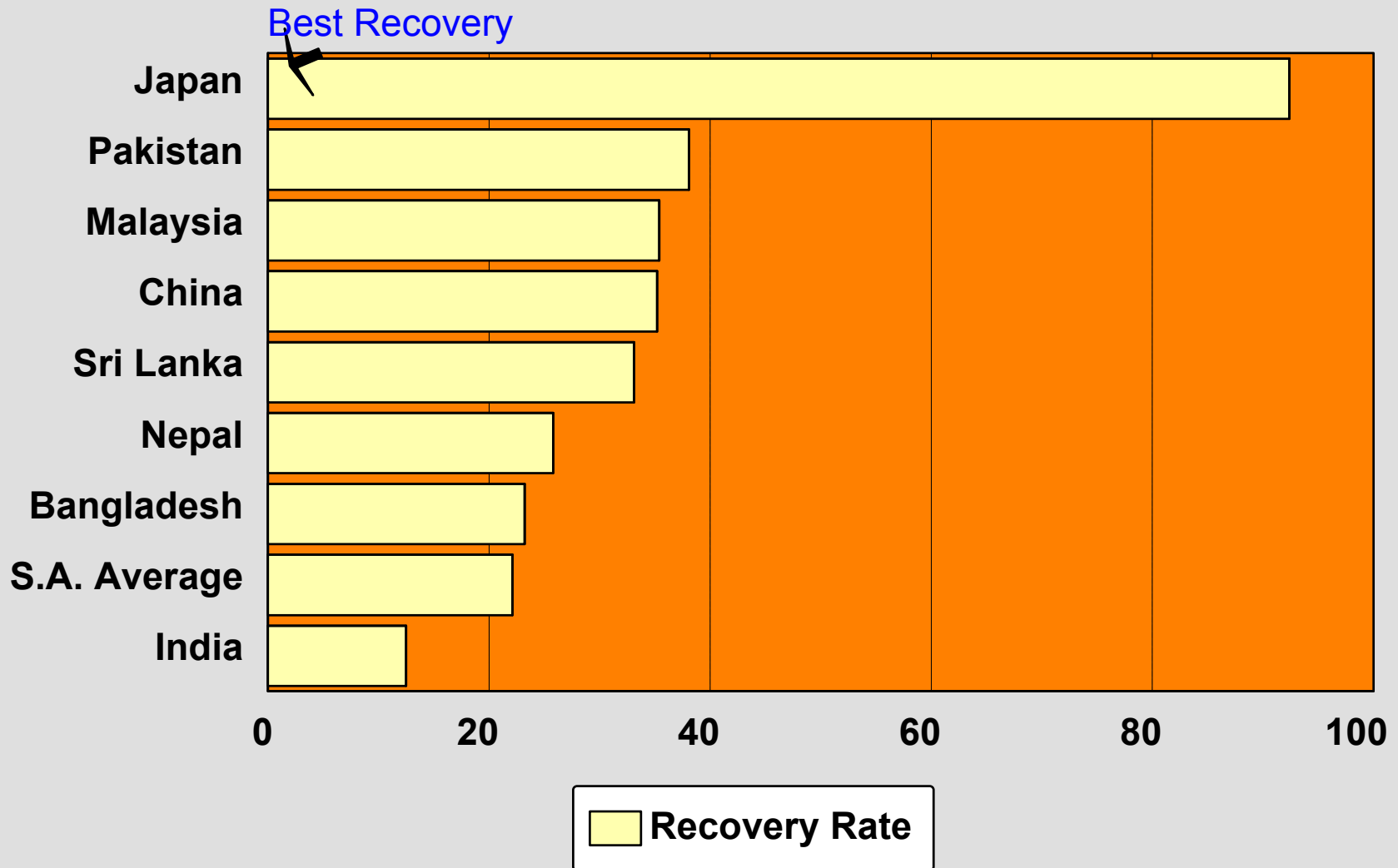
# Time to Enforce a Contract



Source: World Bank

# Bankruptcy Recovery Rate

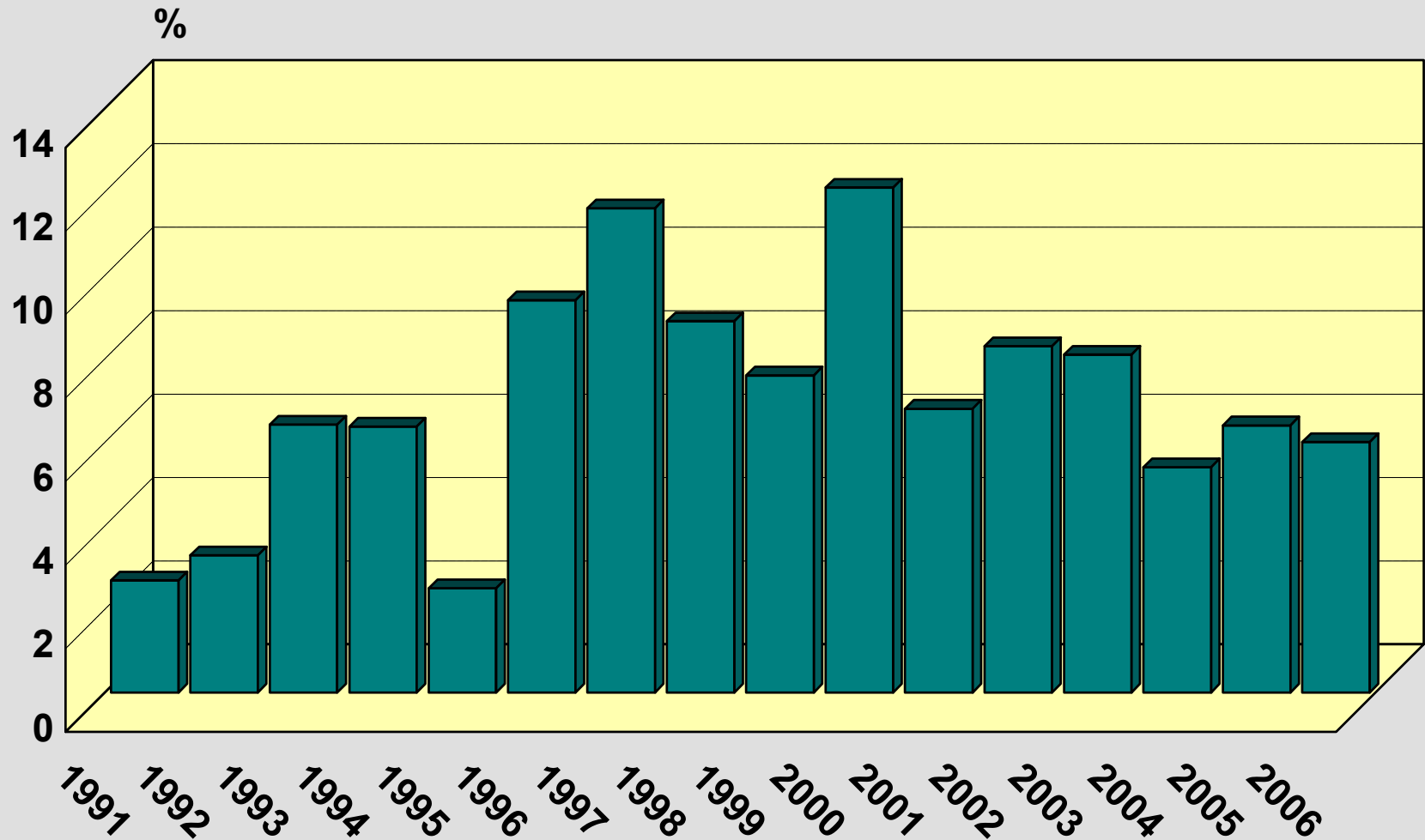
(Cents on the Dollar, Recovered From Insolvent Firm)



Source: World Bank

# Real Interest Rate

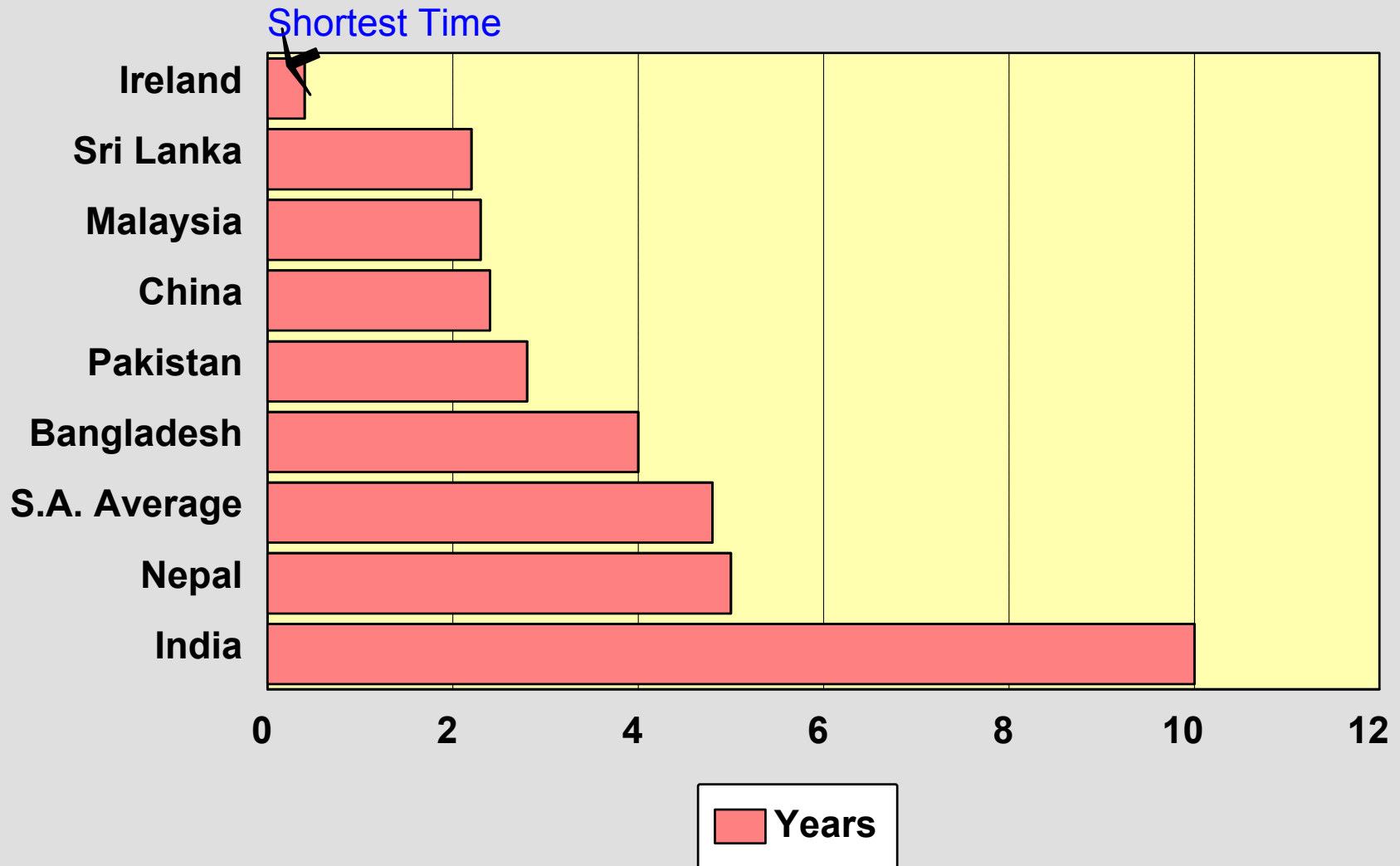
Prime Lending Rate minus WPI



Source: Reserve Bank of India

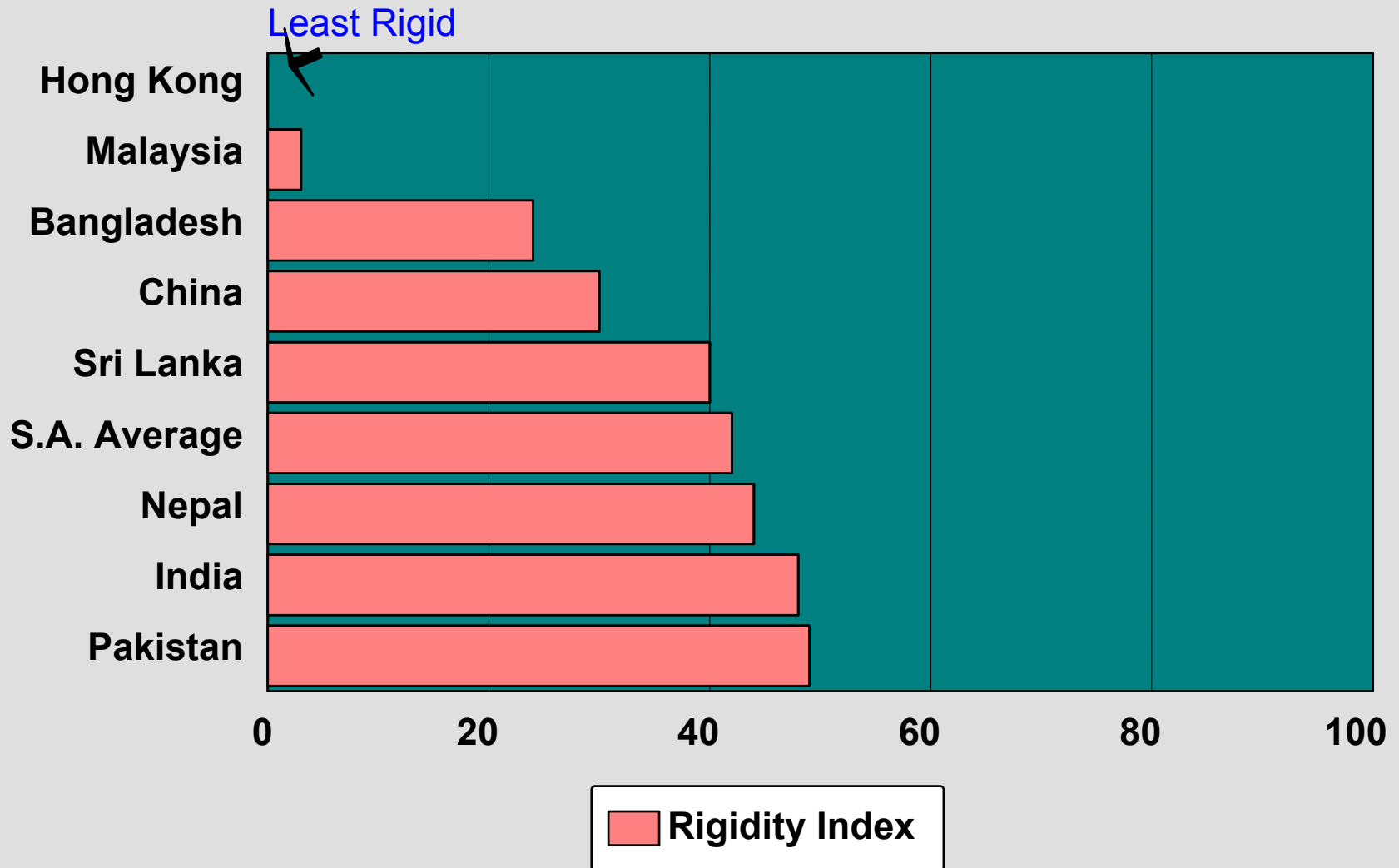


# Time To Go Through Insolvency



Source: World Bank

# Rigidity of Employment Index



Source: World Bank

**Problem: The Transformed Relationship is incomplete.  
Solution: Grow the economic and commercial relationship.**

